

COMPREHENSIVE
ANNUAL FINANCIAL REPORT
CITY OF ADRIAN, MICHIGAN
DEPARTMENT OF FINANCE

For Fiscal Year Ended June 30, 2006

Prepared by the Finance Department
JEFFREY C. PARDEE, C.P.F.O., Director of Finance
CINDY L. PRUE, Assistant Director of Finance

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF ADRIAN, MICHIGAN	County LENAAWEE
Fiscal Year End JUNE 30, 2006	Opinion Date AUGUST 7, 2006	Date Audit Report Submitted to State NOVEMBER 7, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

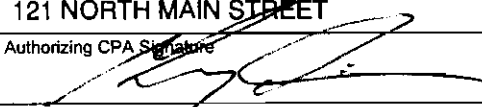
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ **NO** ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SINGLE AUDIT REPORTS	
Certified Public Accountant (Firm Name) ROBERTSON, EATON & OWEN, P.C.		Telephone Number (517) 265-6154	
Street Address 121 NORTH MAIN STREET		City ADRIAN	State MI
Zip 49221		License Number 1101008646	
Authorizing CPA Signature 		Printed Name GARY OWEN	

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COMPREHENSIVE ANNUAL FINANCIAL STATEMENT

Transmittal Letter

October 16, 2006

To the Citizens of the CITY OF ADRIAN, MICHIGAN,
Honorable Mayor and Members of the City Commission:

Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)

Michigan State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the CITY OF ADRIAN for the fiscal year ended June 30, 2006.

In June 1999, the Governmental Accounting Standards Board (GASB) adopted Statement Number 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*. This accounting pronouncement has had a substantial impact on both the format and content of the information included in this report, the third Comprehensive Annual Financial Report prepared under the requirements of the new reporting model. Tom Allen, GASB Chairman stated, “This is the most significant change to occur in the history of governmental financial reporting.”

The new financial reporting model requires general-purpose governments to present the following basic financial statements and Required Supplementary Information (RSI) in order for the financial statements to be in conformance with generally accepted accounting principles (GAAP):

- Management’s Discussion and Analysis (MD&A)
- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements
- Required Supplementary Information (RSI)
- In addition, the State of Michigan requires that individual fund columns be presented for all funds and component units.

The new financial statement includes a discussion of the City’s financial condition and outlook. The new *Management Discussion and Analysis* (MD&A) precedes the full-accrual “*Government-wide Financial Statements*” that are intended to show whether today’s taxpayers have

paid the full cost of the services received. These full-accrual statements are followed by a revised version of the financial statements previously reported, *"Fund Financial Statements"*, which report governmental activities on the "modified accrual" basis of accounting, followed by *Footnote Disclosures* and *Required Supplementary Information* (RSI).

The financial statements include several tiers of information, some of which are familiar and some of which are new. The MD&A, a narrative discussion preceding the government-wide financial statements, will analyze:

- The City's financial performance for the year
- A comparison of the current year to the prior year
- A discussion of whether the City's financial position has improved or deteriorated during the year
- Significant changes in individual funds
- Significant budget variances
- A brief explanation of capital asset and long term debt activity
- Any likely future significant changes in financial position or operating results.

The second tier of information includes the two new full-accrual "government-wide" financial statements prepared using the economic resources measurement focus; the **Statement of Net Assets** and the **Statement of Activities**. These government-wide financial statements now include all capital assets, including infrastructure, as well as the cost of asset purchases over the years they are in service (i.e., depreciation). These statements also include all long-term liabilities, including employee compensated absences. Compensated absences are recognized as expenses in the year that the employees' services are rendered, since this is when the employees earn them. For example, governments are now required to charge the cost of employee benefits, including sick and vacation pay, over the years that employees are rendering services (rather than decades later, when those benefits are typically paid).

The financial statements maintain some familiarity in the third tier, the "Fund" financial statements. The traditional modified accrual reporting of individual governmental funds has been retained. The GASB believes that this is the preferable method to show budgetary accountability. Significant individual funds (referred to as "Major" funds) are presented separately on the statements preceding the footnotes. The fund-based statements are separated into three sections:

- governmental funds
- proprietary funds (e.g., water and waste water funds), and
- fiduciary funds (e.g., Agency Fund).

The government-wide and fund financial statements continue to require various note disclosures to supplement the basic financial statements.

Required Supplementary Information (RSI), presented after the notes to the financial statements, include budgetary comparison schedules for the debt service and non-major special revenue funds (e.g., Community Development Fund). Budget to actual comparisons include the original budget, as well as the final amended budget.

The Comprehensive Annual Financial Report consists of management's representations concerning the finances of the City of Adrian. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Adrian has established a comprehensive internal control framework that is designed to both protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Adrian's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Adrian's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Adrian's financial statements have been audited by Robertson, Eaton & Owen, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Adrian for the fiscal year ended June 30, 2006, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Adrian's financial statements for the fiscal year ended June 30, 2006, are fairly presented, as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Adrian was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to

report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Single Audit Report is published in a separate document, apart from the Comprehensive Annual Report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Adrian's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Adrian, founded in 1825, incorporated in 1853 and re-chartered in 1957, is the county seat of Lenawee County, one of the richest agricultural counties in Michigan. The population of the City of Adrian in 2000 was 22,215, with moderate growth in population since then. Adrian is located 33 miles northwest of Toledo, Ohio, 37 miles south of Ann Arbor and 59 miles southwest of Detroit, and is served by Michigan highways US223, M52 and M34. The City of Adrian is empowered to levy a property tax on both real and personal properties located within its boundaries. The City is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Commission, in accordance with the rules and regulations of the State Boundary Commission. In recent years the City boundaries have expanded through annexation by 1.2 square miles, from 6.9 square miles to 8.1 square miles.

The City of Adrian has operated under the commission-administrator form of government since 1957. Policy-making and legislative authority are vested in a governing commission consisting of the mayor and six other members elected at-large on a non-partisan basis. The City Commission is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the government's administrator and attorney. The City Administrator is responsible for carrying out the policies and ordinances of the City Commission, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. Commission members serve four-year staggered terms, with three Commission

members elected every two years. The mayor is elected to serve a two-year term.

The City of Adrian provides a full range of services, including police and fire protection, sanitation services, construction and maintenance of highways, streets and other infrastructure, Dial-A-Ride transportation and Community Development services, as well as recreational activities and cultural events. In addition to general government activities, the City Commission is financially responsible for the activities of the water and sewer systems, the City of Adrian Building Authority, a blended component unit; therefore, its activities are included as an integral part of the reporting entity. Also included in the City's financial report are the Downtown Development Authority and the Local Development Finance Authority, as discreetly presented component units. However, the Adrian Board of Education and the Bixby Medical Center have not met the established criteria for inclusion in the reporting entity and, accordingly, are excluded from the financial report.

FACTORS AFFECTING FINANCIAL AND ECONOMIC CONDITION

The annual budget serves as the foundation for the City of Adrian's financial planning and control. All departments of the City government are required to submit requests for appropriation to the City's Chief Fiscal Officer on or before the last Tuesday in February each year. The City Administrator uses these requests as the starting point for developing a proposed budget. The Recommended Budget is presented to the City Commission for consideration at the first Commission Meeting in April. The Commission is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than the Commission's second meeting in May. The appropriated budget is prepared by fund (e.g., General Fund), department (e.g., Parks and Recreation) and activity (e.g., Swimming Pool). Transfers of appropriations within and between departments require the special approval of the City Commission in the form of a budget amendment. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, Major and Local Street Funds, these comparisons are provided on Pages 53-57 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on Page 94.

On the November, 2003 General Election Ballot, there was a question regarding the detachment of City of Adrian properties to the Charter Township of Adrian, which ultimately failed. The taxable value of the subject properties approximates \$5.1 million and generate about \$69,000 in additional tax revenue. Since these properties were recently annexed by the City of Adrian and subsequently called into question, they remained on the Charter Township of Adrian assessment and tax rolls until the issue was resolved by a majority vote reaffirming the previous annexation. The taxable value of the subject properties were transferred from the Township to the City, beginning with the 2004 Assessment Roll and reflected in the FY2004-05 and subsequent Tax Rolls.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Adrian operates.

ECONOMIC OUTLOOK

National Economy – For the second meeting in a row, the Federal Reserve's Open Market Committee left short-term interest rates unchanged. After seventeen (17) consecutive increases that took short-term rates from 1.00% in June, 2004 to the current 5.25%, the Fed has paused the last two meetings and made no changes. That is good news and may be interpreted as an attempt to engineer a soft landing for the economy.

The recent drop in energy prices and easing inflation helped mold the Fed's decision. Oil prices have fallen back to the \$58/barrel level from a July high of \$77/barrel. Reports released this month on the Consumer Price Index and Producer Prices Index indicate that inflation pressures may be easing as well. The CPI, the most common measure of inflation, was up only 0.2% in August, following a 0.4% increase in July. Even better news was that core CPI, or CPI less the volatile food and energy segments, was up 0.2% in both July and August, after four straight months of 0.3% increases. Year over year, core CPI is up 2.8%. That's still outside of the Fed's comfort range, but it looks like the slowing economy and falling energy prices are helping to moderate inflation.

A clearer picture on inflation expectations can be gained by looking at the 10-year Treasury yield. In June of this year, the yield was 5.25% and the Fed was still raising short-term interest rates. Recently, after the Federal Reserve paused at two consecutive meetings, the yield fell to as low as 4.55%, indicating investors expect the Fed to actually lower rates in the near future to offset a slowing economy. In fact, historically, if the

Fed pauses for four consecutive meetings after a tightening cycle, their next move is to lower rates, 100% of the time.

The economy is expected to continue to slow for the balance of this year and into the next. Gross Domestic Product (GDP) will probably grow around 3.5% this year, slowing to around 2.5%-3.0% in 2007. A weakening housing market is the major reason behind the slowing economy. Housing starts were off 6% in August and have fallen five of the last six months. August levels are down 20% from last year, as slowing sales and mounting inventories are keeping builders from starting new homes. Housing starts are currently at an annual rate of 1.8 million compared to a 12-month high of 2.3 million units. In fact, last year, residential construction spending accounted for the largest share of GDP in 26 years, and a disproportionate share of payroll growth has been taken by workers associated with the housing industry, including hardhats, real estate brokers and mortgage-finance professionals.

In addition to the direct impact of residential activity on economic growth and employment, there is the indirect contribution coming from the so-called wealth effect. According to Federal Reserve calculations, the consumer spending pace has been boosted by about 25% in recent years because the rapid appreciation in real estate values made homeowners feel wealthier and, hence, more eager to spend. With income growth lagging cyclical norms, these spenders turned their homes into veritable cash machines, extracting equity through second mortgages and re-financings.

Just as the sharp run-up in property values encourages households to spend, the now-cooling trend in home prices is having a reverse wealth effect, depriving homeowners of additional equity and diminishing their sense of financial well-being, as houses are no longer seen as a surefire store for retirement savings. The greater the housing correction, the greater is likely to be the secondary effect curbing consumer spending.

Ironically, one by product of a weakening housing market is a surge in rents, as erstwhile home buyers are flocking to rental units for places to live. That, in turn, is a major reason the inflation rate has increased this year, as housing costs – which primarily reflect the trend in rents – account for about 40% of the core consumer price index. In a sense, therefore, the Fed's rate-hiking campaign could have been self-defeating, pushing up inflation even as it intensifies a housing correction that could drag the economy into a recession.

Such a quandary validates the age-old notion that monetary policy is more of an art than a science. The economy is currently being buffeted

by some unusual forces, with housing playing an unprecedented role in both the inflation and growth outlooks. As a result, a creative and flexible approach will be needed to navigate through some unsettled waters in coming months.

As the U.S. economy slows, relief may be found in the fact that global economic growth remains robust. Japan's Central Bank recently increased short-term interest rates 0.25%, further indication that nation's economy is coming out of a decade-long recession. China recorded growth of 11.3% in the second quarter, after growth of more than 10% in the first quarter. In addition, the United Nations raised its forecast for global economic growth for 2006 to 3.6%, up from 3.3%.

It should be noted, however, that Americans remain the hardest working people on the face of the earth. The United States accounts for roughly 40% of the world's R&D spending. More money was invested in research and development in this country than in the other G-7 nations combined. In 1971, the U.S. economy accounted for 30.52% of the world's GDP. Since then, we've seen the rise of Japan, China, India and the Asian tigers. The United States now accounts for 30.74% of the world's GDP, a slightly higher figure.

State Economy – Michigan pumped out \$79.3 billion worth of products last year, according to the Bureau of Economic Analysis. Embedded in that total was \$64.9 billion worth of durable goods, mostly cars and trucks. Only California makes more big-ticket consumer items than Michigan.

Besides the auto industry, food manufacturing – processing, canning, packing – is the largest industry segment. Michigan companies also are strong in computer robotics, electronics, fabricated metals, chemicals, machinery and pharmaceuticals. Michigan companies produced half of the \$8.9 billion worth of office furniture systems last year, according to the Michigan Manufacturing Association. And the state ranks fourth in the nation for plastics shipments and number of plastics workers.

So why does it seem like manufacturing is disappearing? Mainly because, like agriculture in the previous century, manufacturing jobs are now evaporating. Nationally, 2.9 million manufacturing jobs have been lost since 2000. In Michigan, about 240,000 manufacturing jobs have been lost in the same period. That's a staggering 30% of the total number of manufacturing jobs that existed in 2000.

Although lots of manufacturing jobs have been lost to Mexico, China and other low-cost countries, economists say the major culprit has been the astounding increase in productivity over the past 50-plus years. It now

takes 199 workers to produce the same amount of goods it took 1,000 workers to turn out in 1950, mainly due to automation and other new technologies.

The Brookings Institution, Washington, D.C., has issued a report through its Metropolitan Policy Program entitled, "Bearing the Brunt: Manufacturing Job Loss in the Great Lakes Region, 1995-2005." During this period, the U.S. lost more than 3 million manufacturing jobs, with 37.5% of the loss occurring in the seven Great Lakes states. Michigan lost the most (218,000), followed by Ohio, Illinois and Pennsylvania.

Despite these job losses, manufacturing remains a major driver of the nation's economy and the economy of the Great Lakes region. Because productivity was higher in manufacturing than in other sectors of the economy, manufacturing accounted for a higher share of gross state product than its share of employment, both nationwide and in six of the seven states in the Great Lakes manufacturing belt. In addition, productivity in the manufacturing sector increased by 38% between 1997 and 2004, a much higher increase than the 24.4% growth in productivity for all non-farm businesses during that same time period.

This historic transition is not expected to culminate any time soon. Michigan's current unemployment rate stands at 6.3%, tied with the state of Mississippi for the highest rate in the nation, compared with the national average of 4.6%.

Center-stage for non-manufacturing jobs in Michigan is the tourism industry. Tourism and leisure in Michigan account for nearly 200,000 jobs and more than \$17.5 billion in annual spending in the state's economy. Travel Michigan, the state's tourism agency, recently released a new advertising campaign promoting "Pure Michigan" to several regional markets including, Ohio, Indiana, Illinois, Wisconsin and Ontario. The \$5.7 million campaign capitalizes on the sense of pristine waters, forests, beaches and other natural assets, as well as a multitude of unique travel experiences, such as the Henry Ford Museum, Greenfield Village, Michigan International Speedway and the Mackinac Bridge.

Local Economy - Adrian community leaders have been on the cutting edge of attracting and promoting commerce throughout the City's history, from establishing the first railroad East of the Alleghenies in 1836 to obtaining one of the first Michigan Economic Growth Authority (MEGA) tax credits for the Solvay Automotive Project in 1995. The Adrian area serves as the corporate headquarters for several businesses

including Merillat Industries (a division of Masco). The Gleaner Life Insurance Society, the Kapnick Insurance Company and others.

The employer base remains diversified with several less recession-sensitive employers located in the community including governmental (City and County governments and a State Police Post) educational (Adrian College, Siena Heights University, Adrian Public Schools and the Intermediate School District, as well as the ISD-Vocational Education Center) and institutional organizations (Bixby Medical Center and Michigan Correctional Facility).

Adrian is the core community of the central region of Lenawee County. Its household count increased by over eight percent between 1990 and 2003, growing from 7,479 to 8,111. By 2008, this number is expected to increase to 8,449. If these projections hold, by 2008 a total of 338 new households will reside within the City.

The Lenawee County Chamber for Economic Growth is planning for the County's economic future with the development of a partnership with the University of Michigan Business School called "Lenawee's Future By Design." This project, now in its third year, began with a comprehensive analysis of Lenawee County in which virtually all sectors were interviewed, prodded and probed to uncover strengths, weaknesses, opportunities and threats. The insights gained from this research in educational, manufacturing, agricultural, banking and finance, and other sectors provided the foundation for the Future By Design.

The most recent project consists of a two-pronged strategy: 1) Generate a database of specific businesses that represent the best prospects for attraction to five targeted industrial/business parks in Lenawee County, including three in or near the City of Adrian; and 2) Develop a comprehensive target marketing plan and action steps for each site to attract new employers. The first task has been completed using key criteria for selecting business sectors and specific companies including a five-year history of growth in sales, employment and number of establishments. Industries and technology sectors were targeted with the best-paying jobs and for which the local economy has strong advantages, e.g., workforce skill base, as a place from which to do business. Also considered were strengths, weaknesses, opportunities and threats to each business sector, as well as barriers to entry into the business (lower was better) and other success factors unique to the particular business sector.

The marketing plan consists of a direct mail campaign that will reach over 7,000 businesses in Michigan, Ohio, Indiana and Illinois. Of these, approximately 1,700 are targeted for multiple follow-ups. Industries

represented range from food manufacturing to medical equipment and supplies, diagnostic and testing laboratories, to machine shops and research and development in physical, engineering and life sciences. The direct mail campaign (which will tout the advantages of locating in Adrian, including: well-developed infrastructure, access to rail, relatively low labor cost and cost of living, and high quality of life) will be phased over the next seven months and may be followed by the use of other marketing methods, like advertising in trade publications or regional business journals.

One success story already in the works is location of a \$20 million bio-fuels plant in the City of Adrian and a state-of-the-art ethanol plant in nearby Blissfield. The Lenawee County Commission has unanimously passed a resolution supporting the nationwide renewable energy initiative called 25X'25, which identifies a goal of 25% of America's energy to come from renewable sources by the year 2025. Agricultural and forest products can provide a new generation of fuels that will reduce dependence on imported oil, improve the environment and create new jobs in rural America.

Long Term Financial Planning – Each December the City Commission and Department Heads convene to develop a five-year strategic plan for capital improvements, within the context of the following Mission Statement and Commitments:

The elected and appointed officials, as well as the employees, of the City of Adrian are dedicated to providing equitable access to public services and opportunities for the common good of our citizens. We shall respond to the needs of the Adrian community through the delivery of cost effective, exceptional service that results in an enhanced quality of life.

We are committed...

- to improving, developing and maintaining the municipal infrastructure
- to promoting the economic health of the community
- to providing for public health, welfare and safety
- to fostering communication and cooperation
- to providing recreational, leisure and cultural opportunities
- to supporting city-wide beautification, and
- to promoting quality neighborhoods.

Highlights of the current program include:

- the continuing upgrade of computer technology throughout the City departments, including Geographic Information

System(GIS) enhancements, Library records management system, and City Clerk/Police Department document management system,

- prudent use of the \$20 million Fee Estate endowment to expand passive recreation throughout the community, such as the recent completion of the Trestle Park,
- Alternative sites within the City limits are being explored for a new Parks and Forestry Maintenance Facility and Transportation Center,
- Street tree inventory was completed in 2002 and an additional 700 new planting sites have been added to the 6,500 existing trees on City right-of-ways,
- The burial records of the 19,000 former residents interred at the Oakwood Cemetery since 1848 have been computerized to aid visitors and researchers in their identification and location efforts,
- Two years ago, voters approved a two-year fourteen (14%) percent telephone surcharge to support the Lenawee County Central Dispatch to update the 911 system by adding computer-aided dispatch (CAD) Countywide (including the City of Adrian Police and Fire Departments); on the August 8th ballot a proposal to extend the surcharge an additional ten (10) years was approved,
- replacement of the Police Department's record management software,
- Fire Department equipment has been upgraded and expanded to better serve homeland security requirements,
- the City Clerk has upgraded the City's election system and has initiated a new electronic archiving system that will facilitate access to City records and save space,
- infrastructure improvements are progressing throughout the City, including implementation of a storm-water separation project, accelerated sidewalk repair and replacement program and many street improvement projects funded by a successful millage renewal of ten (10) years approved by the voters on August 8th, as well as installation of an electric generator to eliminate power interruptions that cause sanitary sewer overflows and plant permit violations,
- the Utilities Department has identified a new ground water source that has the capability of replacing the current surface water source of the City's potable water supply, and right-of-way has been obtained to allow the project to go forward,

Long-range financial planning, of course, is affected by the City's revenue stream. The negative effects of "Proposal A" of 1994 are finally coming home to roost, particularly for older, low-growth rate communities like

Adrian. The full impacts of this proposal on local government service levels were delayed by the unusually long robust economy experienced through the mid- and late 1990s. Proposal A will reduce City General Fund revenues from property taxes by about \$1,267,000 during fiscal year 2006-07 alone. Because of the State's greater reliance on the sales tax as a revenue producer, the slowing economy had a greater relative effect on State shared revenue payments, on which about 1/5 or 20% of the City's General Fund revenues are dependent.

Three important laws passed by the Michigan Legislature this term could have a significant impact on the economy. The first increases the minimum wage from \$5.15 per hour to \$6.95, beginning October 1, 2006, to \$7.15 beginning July 1, 2007, and to \$7.40 beginning July 1, 2008. The second, Public Act 368 of 2006, tightens Michigan law regarding when government may invoke eminent domain to seize private property. Under the new law, state and local governments may only use eminent domain to take private property if the government can prove a public use and if affected property owners are paid at least 125% of fair market value. It also restricts the ability of government to declare an area "blighted" and prohibits taking property for economic development projects, enhanced tax revenue or use by private companies. Similarly, Proposal 4 on the November ballot would make the same limits in PA368 part of the state constitution.

Finally, PA345 Of 2006, the Omnibus Appropriations Act, repeals the Single Business Tax, effective December 31, 2007, eliminating almost \$1.9 billion annually from the state treasury. Although much discussion has taken place regarding possible sources for full or partial replacement revenue, no concrete proposals are expected to be put forth until after the November election.

Finally, all municipalities in Michigan were fortunate to learn that the State Board of Canvassers found the Stop Overspending Proposal (SOS) to be deficient in the number of required signatures in order to be placed on the November ballot. This proposal would have had a devastating effect on the ability of local governments to generate necessary resources through issuance of limited obligation debt or increased sewer and water rates to provide essential government services. The general consensus is that a similar proposal will be forthcoming at a future election.

On the other hand, Proposal 5 – Guaranteed Funding for K-16 Education is on the November ballot and, if passed, will prioritize public funding of education (indexing funding to inflation with a significant catch-up provision) to the exclusion of most other State funded programs, including Statutory Revenue Sharing to local units of government.

Fund Balance – General Fund

Governmental Funds report the difference between assets and liabilities as *fund balance*, which is divided into *reserved* and *unreserved* portions. The function of *reserved fund balance* is simply to isolate the portion of fund balance that is *not* available for the following period's budget, so that *unreserved fund balance* can serve as a measure of currently available financial resources.

The reservation of fund balance is necessary for two reasons:

- *Resources not available for spending.* Some of the assets reported in governmental funds are not available for spending in the subsequent year's budget. For example, a *long-term* loan receivable, such as an advance to another fund, is not available for *current* spending. Likewise, governments like the City of Adrian that elect to report supplies, inventories and prepaid items in governmental funds typically would report a corresponding amount of *reserved fund balance* to indicate that these amounts are not actually available for spending.
- *Legal restrictions on spending.* Fund balance is also reserved to indicate situations where a portion of fund balance is not available for new spending because of legal restrictions involving parties outside the financial reporting entity. The most common example is amounts reserved for encumbrances, which represent contracts for goods or services with outside parties that are still outstanding at the end of the period and that the City intends to honor.

Unreserved fund balance may, in turn, be subdivided into *designated* and *undesignated* portions. Designations represent management's intended use of resources and should reflect actual plans approved by the City's senior management. Expressed another way, designations reflect a government's self-imposed limitations on the use of otherwise available current financial resources.

The following schedule presents an analysis of changes in General Fund – Fund Balance between FY2004-05 and FY2005-06:

City of Adrian

General Fund - Fund Balance

General Fund – Fund Balance as of June 30, 2005	\$6,562,368
Reserves	
Inventories and Prepayments	164,070
Encumbrances	<u>639,585</u>
Total Reserved Fund Balance as of June 30, 2005	804,255
 General Fund-Unreserved Fund Balance as of June 30, 2005	 \$5,758,113
 FY2005-06 Revenue and Other Financing Sources	 \$11,660,402
FY2005-06 Expenditures	<u>12,178,604</u>
Revenue Over/(Under) Expenditures	(\$ 518,202)
(Increase)/Decrease in Inventories and Prepayments	(19,903)
(Increase)/Decrease in Encumbrance Reservation	<u>338,808</u>
General Fund-Unreserved Fund Balance as of June 30, 2005	\$5,558,816
 Inventories and Prepayments	 \$ 184,573
FY2005-06 Encumbrances and Carry Forwards	<u>300,777</u>
Total Reserved Fund Balance as of June 30, 2006	485,350
 General Fund – Fund Balance as of June 30, 2006	 \$6,044,166
 Increase/(Decrease) in Fund Balance	 <u>\$ (518,202)</u>
 General Fund Unreserved Fund Balance as of June 30, 2006	 \$5,558,816
 Proposed Designations of General Fund Unreserved Fund Balance (Acct. 393.000):	
City Hall Renovations	\$1,300,000
DPW-Motor Pool - Depreciation Catch-Up	1,000,000
Replace Fire Engine #1	250,000
Police Facility – First Year Debt Service	200,000
Telecommunication Upgrades	150,000
Property Acquisition, Demolitions and Options	150,000
Funding for FY2006-07 Budget	131,327
Bohn Pool – First Year Debt Service	100,000
CRIMP Savings	50,407
Technology Infrastructure Upgrades (GIS, Other)	50,000
Local Grant Match	<u>25,000</u>
Total Proposed Designations	<u>\$3,406,734</u>
Undesignated Fund Balance	<u>\$2,152,082</u>

The decrease in the General Fund-Fund Balance (\$518,202) is mainly attributable to defeasance of debt (\$558,567) on the Witt Property, and operating subsidies to the Dial-A-Ride (\$84,285) and the Automobile Parking System (\$139,000), offset by favorability in building, heating and plumbing permits - \$84,000, and capital equipment in the Police and Fire Departments - \$116,000.

Cash Management Policies and Practices - Cash temporarily idle during the year was invested in money market accounts, certificates of deposit, and obligations of the U.S. Treasury. The following exhibit compares investments on June 30, 2006 with the prior fiscal year, reflecting an overall decrease of (\$1,900,762).

<u>Investment Type</u>	<u>FY2004-05</u>	<u>FY2005-06</u>
Money Market Accounts	\$ 2,245,126	\$ 433,453
Certificates of Deposit	2,169,507	3,226,321
U.S. Government Securities	6,769,466	5,623,563
	<u>\$11,184,099</u>	<u>\$ 9,283,337</u>

The exhibit below shows the amount of interest earnings by each type of fund during the 2005-06 fiscal year, compared with the prior fiscal year.

<u>Fund Type</u>	<u>FY2004-05</u>	<u>FY2005-06</u>
General Fund	\$179,080	\$ 23,361
Other Governmental Funds	57,856	174,049
Proprietary Funds	133,400	303,087
	<u>\$370,336</u>	<u>\$500,497</u>

City of Adrian investment policy specifies that all public funds held by the City, including federal funds, shall be deposited and/or invested with agencies that are recognized and authorized by Michigan statutes for that purpose. All certificates of investments of funds entrusted to the City of Adrian shall remain in the custody of the Finance Department unless otherwise authorized by the City Commission. As of June 30, 2006, all certificates of investments were in custody of the Finance Department.

Risk Management - The City is a member of the Michigan Municipal Liability and Property Pool for its general liability property coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers' compensation coverage. Both pools are under the Michigan Municipal Program sponsored and administered by the Michigan Municipal League (MML).

The City pays annual premiums to the insurance pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of a minimum of \$1,000,000 for each specific occurrence, and to a minimum of

\$2,000,000 in aggregate in excess of the pool loss reserve fund. Based on an historical claims analysis by the Finance Department, deductibles for Comprehensive General Liability, Personal Injury Liability and Public Officials Liability coverages were increased from \$1,000 to \$5,000, a year ago resulting in an annual savings of almost \$30,000.

The City of Adrian was selected as a BETA SITE by the MML for testing improved risk management assessment and reporting, implemented in 2005. In addition, the City Commission recently adopted a new Motor Vehicle Safety Policy.

Pension and Other Post-employment Benefits- The City of Adrian is a member of the Municipal Employees' Retirement System (MERS) of Michigan. The pension program is administered by the MERS Board under the provisions of the Municipal Employees' Retirement Act of 1984, as amended by Public Act 220 of 1996, as embodied in the MERS Plan Document. The pension program is categorized as a Defined Benefit Program with eligibility earned at age 60 with 8 or more years of credited service with annual retirement benefits for General Non-represented employees based on 2.0 percent of Final Average Compensation (FAC defined as the three consecutive year period of credited service in which the average compensation paid is highest) times years of credited service. Employee contributions for General employees amount to 3.0 percent of salary while employer contributions equate to 5.0 percent. Upon recommendation of the City Administrator, the City Commission recently improved the Defined Benefit Program by reducing the required years of credited service to achieve full vesting rights from 10 year to 8 years. Pension benefits, as well as employee and employer contributions, for Represented employees are determined in the collective bargaining process. Total Regular Employee Contribution calculated by the actuary for Fiscal Year 2006-07 amounts to \$703,644. As of December 31, 2005, the Pension Plan had Net Assets of \$36,311,897 with an Unfunded Actuarial Accrued Liability of \$4,835,802.

In August 2006, effective October 1, 2006, the City Commission authorized two significant changes to the City's pension program:

- 1) Enhanced the Benefit Factor from MERS B-2 (2.00%) to MERS B-3 (2.25%) for non-represented employees.
- 2) For T-POAM (formerly Steelworkers) represented employees and non-represented employees, closed the Defined Benefit Pension Program to all new employees and established a Defined Contribution Pension Program with Employer Contributions set at seven (7.00%) percent of salary.

Fiduciary Operation- The City of Adrian has a perpetual care fund from which the interest earnings are used to maintain the cemetery. Interest

earnings amounted to \$13,989 for Fiscal Year 2005-06 and the investment balance is \$751,406; principal is \$18,947 more than last year.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Adrian for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. This was the nineteenth consecutive year that the City has received this prestigious award.

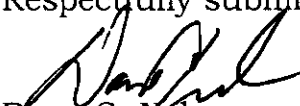
In order to attain the Award, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report with contents in conformance with program standards. Such Report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for review.


In addition, the City's Chief Financial Officer has been recognized by the Michigan Government Finance Officers Association (MGFOA) for his career-long contributions to that organizations success by according its highest award of Honorary Life Member.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in preparation of this report.

In closing, credit must also be given to the Mayor and the City Commission for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Adrian's finances.

Respectfully submitted,


Dane C. Nelson
City Administrator


Jeffrey C. Pardee, C.P.F.O.
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Adrian
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

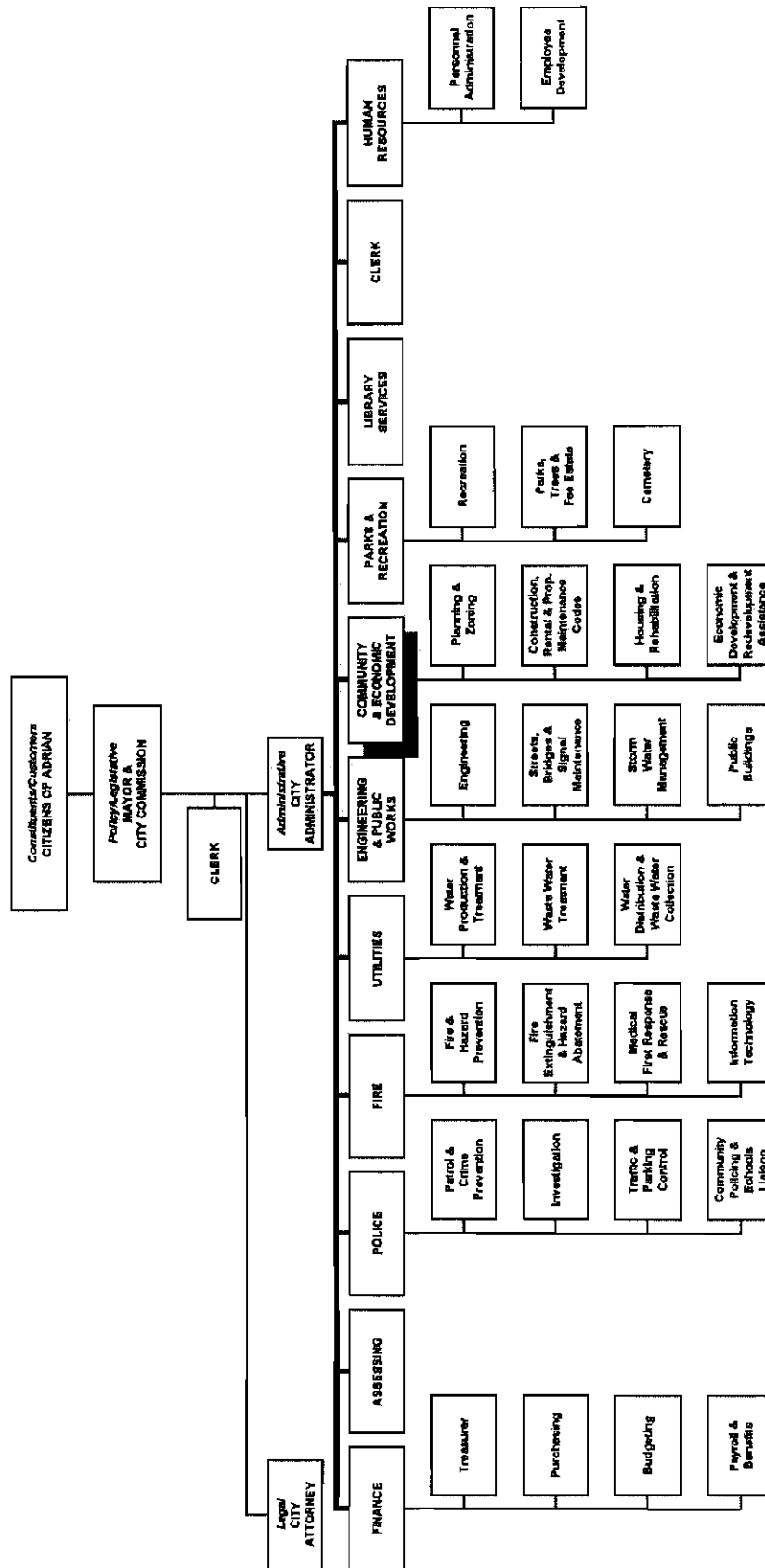
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF ADRIAN ORGANIZATIONAL CHART



CITY OF ADRIAN, MICHIGAN
LIST OF PRINCIPAL OFFICIALS

June 30, 2006

<u>NAME</u>	<u>TITLE</u>
Gary McDowell	Mayor
Michael Clegg	Commissioner
Greg Dumars	Commissioner
Barbara Mitzel	Commissioner
Michael Osborne, Jr.	Commissioner
Harry "Dusty" Steele	Commissioner
Kirk Valentine	Commissioner
Dane C. Nelson	City Administrator
Jeffrey C. Pardee, C.P.F.O.	Finance Director
Sarah Osburn	City Attorney
Maria Irish	City Assessor
Terrence Collins	Police Chief
Paul G. Trink	Fire Chief/IT Director
Mark Gasche	Parks & Recreation Director
Jule J. Fosbender	Library Director
Keith Dersham	City Engineer/Public Works Director
Marsha K. Rowley	City Clerk
James Caldwell	Utilities Director
Jack Lewis	Human Resources Director
Jim Tischler	Community/Economic Development Director
Marcia Bohannon	Transportation Coordinator
Kyle Hoffman	Downtown Development Director

August 7, 2006

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adrian, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited each nonmajor governmental fund and internal service fund, each nonmajor enterprise fund, and the fiduciary fund type presented in the accompanying combining and individual fund financial statements and schedules, also individual fund statements for discretely presented component units; and schedules of indebtedness of the City of Adrian, Michigan, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the City of Adrian, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adrian, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the all major governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental and internal service funds nonmajor enterprise fund, and fiduciary fund type of the City of Adrian as of June 30, 2006, and the respective changes in the financial position and cash flows, where applicable, thereof and the budgetary comparison for all nonmajor governmental funds, and includes the individual fund statements for discretely presented component units and schedules of indebtedness for the year then ended in conformity with accounting principles generally accepted in the United States of America.

August 7, 2006

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2006 on our consideration of the City of Adrian, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and pension plan schedule on pages 29 through 41 and page 91, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Adrian, Michigan's basic financial statements. The introductory section, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Adrian, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

August 7, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adrian, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City of Adrian, Michigan's basic financial statements and have issued our report thereon dated August 7, 2006 . We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Adrian, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

August 7, 2006

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Adrian, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Commission, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

August 7, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
MAJOR PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

COMPLIANCE

We have audited the compliance of the City of Adrian, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Adrian, Michigan's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the City of Adrian, Michigan's management. Our responsibility is to express an opinion on the City of Adrian, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Adrian, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Adrian, Michigan's compliance with those requirements.

In our opinion, the City of Adrian, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

August 7, 2006

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

INTERNAL CONTROL OVER COMPLIANCE

The management of the City of Adrian, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Adrian, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the City Commission, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

CITY OF ADRIAN, MICHIGAN

COMPREHENSIVE ANNUAL FINANCIAL STATEMENT

Management's Discussion and Analysis

October 6, 2006

As management of the City of Adrian, we offer readers of the City of Adrian's financial statements this narrative overview and analysis of the financial activities of the City of Adrian for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-18 of this report. All amounts, unless otherwise indicated, are presented in whole dollars

Financial Highlights

- The Assets of the City of Adrian exceeded its liabilities at the close of the most recent fiscal year by \$64,482,094 (*net assets*). Of this amount, \$7,595,399 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by (\$1,987,213), (\$1,097,662) in Governmental Activities and (\$889,551) in Business-Type Activities. The primary contributing factors relating to the decrease in Net Assets for Governmental Activities are:

Debt Defeasance on Witt Property	\$ 558,568
Delinquent Personal Property Taxes	183,000
Auto Parking Fund Subsidy	139,000
Homeland Security Grant Expenses	85,000 (which will be billed in FY2006-07)
Dial-A-Ride Subsidy	<u>84,285</u>
Total	<u>\$1,049,853</u>

The primary reasons for the overall decrease in net assets in Business-Related Activities is twofold: Less than expected revenues due to decreased water usage and unanticipated capital expenditures related to emergency repairs on the sewage collection system. Belt tightening measures have been taken to avoid unnecessary future rate increases.

- As of the close of the current fiscal year, the City of Adrian's governmental funds reported combined ending fund balances of \$9,913,213, a decrease of (\$525,187) in comparison with the prior year. Following is a summary of Net Change in Fund Balance for selected Funds:

General Fund	\$ (518,202)
Major Street Fund	187,563
Community Development Fund	<u>(215,307)</u>
Total	<u>\$ (545,946)</u>

The decrease in the General Fund is mainly attributable to defeasance of debt on the Witt Property. Also, the following draw downs on Fund Balance were authorized by the City Commission during the year:

Railroad Crossing Lawsuit Settlement	\$33,520
Burr Ponds Park Funding	21,170
Grant Matching Funds	19,515
Channel 20 & 23 Equipment	<u>5,239</u>
Total	<u>\$79,444</u>

The favorability in the Major Street Fund (\$187,563) reflects reduced maintenance cost due to the intensive road improvement program implemented the previous year, as well as increased investment earnings related to the under-spending and improved market rates. The Community Development Fund unfavorability (\$215,307) reflects the federal requirement to use available proceeds from the revolving loan program for the Rental Rehabilitation Program, before utilizing Community Development Block Grant Funds.

Approximately eighty (78.5%) percent of the total fund balance, \$7,784,855, is *available for spending* at the City Commission's discretion (*unreserved fund balance*).

- At the end of the current fiscal year, unreserved fund balance for the general fund was \$5,558,816 or forty-six (46%) percent of total general fund expenditures. Of this amount, management has designated \$3,406,734 for the following specific projects, leaving \$2,152,082 in Unreserved/Undesignated Fund Balance.

1)	City Hall Renovations	\$1,300,000
2)	DPW-Motor Pool Depreciation Catch-Up	1,000,000
3)	Replace Fire Engine #1	250,000
4)	Police Facility – First Year Debt Service	200,000
5)	Telecommunication Upgrades	150,000
6)	Property Acquisitions, Demolitions and Options	150,000
7)	Funding for FY2005-06 Budget	131,327
8)	Bohn Pool – First Year Debt Service	100,000
9)	CRIMP Savings	50,407
10)	Technology Infrastructure Upgrades (GIS, Other)	50,000
11)	Local Grant Match	25,000
	Total	<u>\$3,406,734</u>

- The City of Adrian's total debt burden increased by \$1,574,931 or ten (10%) percent during the current fiscal year, equivalent to \$783 per capita or 3.6% of Personal Income. General Obligation Debt decreased \$828,100, from \$1,812,360 to \$984,260, due to defeasance of debt on the Witt Property (\$558,568), and debt service payments on Storm Water Utility Bonds (\$100,000) and Parks & Recreation Installment Purchase Agreement (\$169,532) for acquisition of the Marvin Farm. Outstanding Revenue Bond Debt increased by \$2,403,031, from \$14,015,000 to \$16,418,031 due to draw downs on the Sewer Revolving Fund Loan (\$2,983,031), even though scheduled reductions in outstanding principal were achieved due to debt service payments made on both the Sewer Revolving Fund Loan (\$350,000) and Drinking Water Revolving Fund Loan (\$230,000).

Overview of the Financial Statements

These discussion and analysis are intended to serve as an introduction to the City of Adrian's basic financial statements. The City of Adrian's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Adrian's finances, in a manner similar to private-sector business.

The *Statement of Net Assets* (Pages 44-45) presents information on all of the City of Adrian's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Adrian is improving or deteriorating.

The *Statement of Activities* (Pages 46-47) presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Adrian that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Adrian include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Adrian include water and sewer operations and automobile parking activities.

The government-wide financial statements include not only the City of Adrian itself (known as the *primary government*), but also a legally separate Downtown Development Authority and a legally separate Local Development Finance Authority for which the City of Adrian is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The Dial-A-Ride transportation system and OMNI drug enforcement unit function for all practical purposes as departments of the City of Adrian and, therefore, have been included as an integral part of the primary government. The government-wide financial statements can be found on pages 44-47 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Adrian, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Adrian can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing

decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Adrian maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, major streets and local street funds, and the Fee and Public-Purpose Fund, all four of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The basic governmental fund statements can be found on pages 44-47 of this report.

The City of Adrian adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget (reference pages 53-55).

Proprietary Funds. There are traditionally two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Adrian uses enterprise funds to account for its water and sewer operations and for the Automobile Parking and Dial-A-Ride Systems, as well as the Capital Projects Revolving Fund and Storm Water Utility Fund. *Internal service funds* are an accounting device normally used to accumulate and allocate costs internally among the City of Adrian's various functions. The Information Technology Fund was established with the implementation of the FY2004-05 Budget.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water System and the Wastewater System, both of which are considered to be major funds of the City of Adrian. Conversely, the Capital Projects Revolving Fund, Dial-A-Ride, Storm Water Utility and the Automobile Parking System funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for these enterprise funds is provided in the form of *combining statements* elsewhere in this report. The basic proprietary fund financial statements can be found on pages 58-62 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Adrian's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 63 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 64-89 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Adrian's progress in

funding its obligation to provide pension benefits to its employees through employer contributions and required employee contributions. Required supplementary information can be found on page 91 of this report.

The Schedule of Indebtedness can be found on pages 142-149.

The Governmental Accounting Standards Board (GASB) has issued Statement 44 regarding Economic Condition Reporting for General Purpose Local Governments. Although the provisions of Statement 44 are effective for Statistical Sections prepared for periods beginning after June 15, 2005, the City of Adrian met the intent of this Statement through early adoption (FY2004-05) and by improving the understandability and usefulness of the Statistical Section information by addressing traditional comparability issues that have developed in practice and by adding information from the new financial reporting model for state and local governments required by Statement 34.

This part of the City of Adrian’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City’s overall financial health.

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

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	(Current Year and Nine Years Ago)	164
Exhibit C-4:	Property Tax Levies and Collections (Last Ten Fiscal Years)	165

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Exhibit D-1:	Ratios of Outstanding Debt by Type (Last Ten Fiscal Years)	166
Exhibit D-2:	Ratios of General Bonded Debt Outstanding (Last Ten Fiscal Years)	167
Exhibit D-3:	Direct and Overlapping Government Activities Debt (as of June 30, 2005)	168
Exhibit D-4:	Legal Debt Margin Information (Last Ten Fiscal Years)	169
Exhibit D-5:	Pledged-Revenue Coverage (Last Ten Fiscal Years)	170

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Exhibit E-1:	Demographic and Economic Statistics (Last Ten Calendar Years)	171
Exhibit E-2:	Principal Employers (Current Year and Nine Years Ago)	172

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

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Exhibit F-2:	Operating Indicators by Function/Program (Last Ten Fiscal Years)	174
Exhibit F-3:	Capital Asset Statistics by Function/Program (Last Ten Fiscal Years)	175

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Adrian, assets exceeded liabilities by \$64,482,094 at the close of the most recent fiscal year.

By far the largest portion of the City of Adrian's net assets (80.0%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Adrian uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Adrian's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF ADRIAN'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	FY2005-06	FY2004-05	FY2005-06	FY2004-05	FY2005-06	FY2004-05
Current and Other Assets	\$11,048,568	\$11,820,933	\$3,793,710	\$4,835,909	\$14,842,278	\$16,656,842
Capital Assets	24,160,671	25,638,608	44,841,286	42,237,181	69,001,957	67,875,789
Total Assets	\$35,209,239	\$37,459,541	\$48,634,996	\$47,073,090	\$83,844,235	\$84,532,631
Long-Term Liabilities	\$1,197,620	\$1,875,989	\$16,659,734	\$14,326,853	\$17,857,354	\$16,202,842
Other Liabilities	838,827	1,313,098	665,960	547,384	1,504,787	1,860,482
Total Liabilities	\$2,036,447	\$3,189,087	\$17,325,694	\$14,874,237	\$19,362,141	\$18,063,324
Net Assets:						
Invested in Capital Assets (Net of Related Debt)	\$23,276,411	\$24,026,248	\$28,323,256	\$28,022,181	\$51,599,667	\$52,048,429
Restricted	3,869,047	3,876,032	1,417,981	1,380,000	5,287,028	5,256,032
Unrestricted	6,027,334	6,368,174	1,568,065	2,796,672	7,595,399	9,164,846
Total Net Assets	\$33,172,792	\$34,270,454	\$31,309,302	\$32,198,853	\$64,482,094	\$66,469,307

An additional portion of the City of Adrian's net assets, seven and nine-tenths (8.2%) percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$7,595,399) may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City of Adrian is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Change in Net Assets. As explained earlier under Financial Highlights, the City's total net assets decreased by (\$1,987,213). A summary of this decrease, segregating Governmental Activities and Business-Type Activities, as well as a comparison with prior year's actual, follows:

	Governmental Activities		Business-Type Activities		Total	
	FY2005-06	FY2004-05	FY2005-06	FY2004-05	FY2005-06	FY2004-05
Revenues:						
Program Revenues:						
Charges for Services	\$2,665,853	\$2,328,875	\$6,038,536	\$6,095,558	\$8,704,389	\$8,424,433
Operating Grants & Contributions	890,496	1,031,695	228,039	222,458	1,118,535	1,254,153
Capital Grants & Contributions	69,014	72,978	110,932	0	179,946	72,978
Total Program Revenues	\$3,625,363	\$3,433,548	\$6,377,507	\$6,318,016	\$10,002,870	\$9,751,564
General Revenues:						
Property Taxes	\$6,869,387	\$6,528,844			\$6,869,387	\$6,528,844
Other Taxes	3,717,523	3,783,894			3,717,523	3,783,894
Grants & Contributions not Restricted to Specific Programs	75,785	12,346			75,785	12,346
Other	358,274	236,936	\$67,409	\$133,400	425,683	370,336
Total General Revenues	\$11,020,969	\$10,562,020	\$67,409	\$133,400	\$11,088,378	\$10,695,420
Total Revenues	\$14,646,332	\$13,995,568	\$6,444,916	\$6,451,416	\$21,091,248	\$20,446,984

	Governmental FY2005-06	Activities FY2004-05	Bus-Type FY2005-06	Activities FY2004-05	Total FY2005-06	FY2004-05
Expenses:						
General Government	\$2,450,722	\$2,655,280			\$2,450,722	\$2,655,280
Public Safety	4,912,898	4,693,255			4,912,898	4,693,255
Public Works	1,122,058	784,985			1,122,058	784,985
Culture and Recreation	2,447,601	2,188,354			2,447,601	2,188,354
Other Services	1,668,073	1,631,127			1,668,073	1,631,127
Community/Economic	599,690	278,898			599,690	278,898
Development						
Highways, Streets & Bridges	2,418,910	2,513,058			2,418,910	2,513,058
Interest on Long-Term Debt	3,112	69,369			3,112	69,369
Wastewater System			\$3,731,181	\$3,465,380	3,731,181	3,465,380
Water System			2,924,884	3,034,751	2,924,884	3,034,751
Dial-A-Ride System			455,245	490,660	455,245	490,660
Auto Parking System			116,399	152,681	116,399	152,681
Storm Water Utility			227,688	344,579	227,688	344,579
Total Expenses	\$15,623,064	\$14,814,326	\$7,455,397	\$7,488,051	\$23,078,461	\$22,302,377
Transfers	-120,930	-276,246	120,930	276,246	0	0
Increase/(Decrease) in Net Assets	(\$1,097,662)	(\$1,095,004)	(\$889,551)	(\$760,389)	(\$1,987,213)	(\$1,855,393)
Net Assets - Beginning	\$34,270,454	\$35,365,458	\$32,198,853	\$32,959,242	\$66,469,307	\$68,324,700
Net Assets - Ending	\$33,172,792	\$34,270,454	\$31,309,302	\$32,198,853	\$64,482,094	\$66,469,307

Financial Analysis of the Government's Funds

As noted earlier, the City of Adrian uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Adrian's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City of Adrian's governmental funds reported combined unreserved fund balances of \$7,784,855, a decrease of \$595,849 in comparison with the prior year. The net decrease is mainly attributable to defeasance of debt related to the acquisition of the Witt Property (\$558,568), as well as General Fund operating subsidies to the Dial-A-Ride (\$84,285) and the Automobile Parking System (\$139,000). Approximately eighty (78%) percent of the total fund balance, \$9,913,213, is *available for spending* at the City Commission's discretion (*unreserved fund balance*). The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$914,353), 2) for inventories and prepayments (\$192,072), 3) to generate income to pay for the perpetual care of the municipal cemetery (\$764,547), 4) debt service on loans (\$176,759) or 5) for a variety of other restricted purposes (\$80,627).

The General Fund is the chief operating fund of the City of Adrian. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$5,558,816, while total fund balance reached \$6,044,166. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 46% percent of the total General Fund expenditures, while total fund balance represents fifty (50%) percent of that same amount.

The fund balance of the City of Adrian's General Fund decreased by (\$518,202) to \$6,044,166, during the current fiscal year. The key factor in this decrease is the defeasance of debt on the Installment Purchase Contract for the Witt Property (\$558,568), General Fund operating subsidies to the Dial-A-Ride (\$84,285) and the Automobile Parking System (\$139,000).

Other Governmental Funds include Major Streets, Local Streets, and Fee & Public Purpose Funds, as well as other minor funds, such as Perpetual Care and Endowment Funds. Collectively, their fund balances decreased by \$6,985, to \$3,869,047. The favorability in the Major Street Fund (\$187,563) reflects reduced maintenance cost due to the intensive road improvement program implemented the previous year, as well as increased investment earnings related to the under-spending and improved market rates. The Community Development Fund unfavorability (\$215,307) reflects the federal requirement to use available proceeds from the revolving loan program for the Rental Rehabilitation Program, before utilizing Community Development Block Grant Funds.

Proprietary Funds. The City of Adrian's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail.

Although the Water Fund basically broke even, unrestricted net assets of the Wastewater Fund at the end of the year amounted to \$399,915, a decrease of \$1,159,295 attributable to a planned draw down on Retained Earnings to cover increased debt service expenses related to implementation of a Wastewater System Improvement Project Plan, thereby minimizing user rate increases. In addition, the Wastewater Fund experienced unanticipated emergency repairs to the Sewer Collection System during the year. The total growth in all other Proprietary Funds was \$99,026, including Storm-Water Utility, Automobile Parking System, Dial-A-Ride System and Capital Projects Revolving Fund. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Adrian's business-type activities.

General Fund Budgetary Highlights

Differences in the original budget and the final amended budget amounted to \$1,098,628 increase in appropriations and can be briefly summarized as follows:

Defeasance of Witt Property Debt	\$ 558,568
Increased Building Permit Revenue	190,000
Increased Investment Income	114,008
Firefighter Assistance Grant	86,450
Livescan Fingerprinting Program	50,315
Settlement of Railroad Crossing Lawsuit	33,520
Burr Ponds Park Funding – Design	21,170
Police Radio Upgrade Grant	12,779
Increased User Fees – Youth Sports	10,000
Allocation of Drug Forfeiture Funds	7,970
Channel 20 & 23 Equipment Acquisition	5,239
Sale of Railroad Property	5,000
Bullet Proof Vest Grant	3,609
Total	<u>\$1,098,628</u>

The above listed appropriations were budgeted from available fund balance. During the year, however, revenues exceeded budgetary estimates and expenses were less than budgetary estimates, thus reducing the need to draw upon existing fund balance to \$518,202.

Significant variances between the Amended Budget and Actual Revenue and Expenditures are identified and explained as follows:

Revenue:

- Fee Estate revenue unfavorable (\$785,7655) due to postponement of Burr Pond Park Project – Offset by commensurate favorability in expenditures.
- Building Permits favorable \$63,321 due to increased construction activity.
- Intergovernmental Revenue unfavorable \$39,699 due to reduction in State Revenue Sharing.
- Tax Collection Fees favorable due to policy change to collect from Adrian residents.
- Investment Earnings favorable \$54,884 due to enhanced portfolio management and improved market rates.

Expenditures:

- City Administration unfavorable (\$6,201) due to prior Administrators severance pay.
- City Clerk – Elections unfavorable (\$48,213) due to acquisition of new voting machines.
- City Assessor favorable \$44,960 due to cost savings on Reappraisal Contract, under-spending on Capital Equipment and Hospitalization Insurance.
- Human Resources favorable \$27,238 due to lower than anticipated Hospitalization Insurance, In-Service and Safety training.
- City Hall unfavorable (\$42,490) due to increased Heating cost and renovations for City Attorney's Office.
- Cemetery unfavorable (\$25,167) due to Part-Time Wage and Vehicle expenses.
- Police Department favorable \$110,076 due to lower than anticipated hospitalization insurance, in-service training and capital equipment outlays, partially offset by greater than anticipated expense for retirement contribution and uniform expense.
- Fire Department favorable \$94,380 due to lower than anticipated, overtime and capital equipment outlays, partially offset by sick pay, retirement contribution and increased heating expense for the Fire Station.
- Community Development - Inspection favorable \$32,612 due to vacancy of Director position and related program under-spending for Contract Services.
- Public Works favorable \$270,457 due to distribution of engineering, wages, motor vehicle and material expenses to Major and Local Street Projects, as well as less than expected waste collection and disposal costs.
- Culture and Recreation unfavorable (\$67,807) due to increased Utility expenses for Burr Ponds and the Piotter Senior Citizen Center, as well as Parks & Forestry Wages, which were reimbursed from the Fee Estate revenue.
- Interest Expense favorable \$66,274 due to defeasance of Installment Purchase Contract on Witt Property.

Other Financing Sources (Uses):

- Transfer-In unfavorable (\$766,310) due to postponement of Burr Pond Project.
- Transfer-Out favorable \$95,096 due to reduced subsidies to the Dial-A-Ride System and Auto Parking Fund.

Capital Asset and Debt Administration

Capital Assets. The City of Adrian's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounts to \$69,001,957 (net of accumulated depreciation), representing a year-to-year increase of \$1,126,168. Governmental Activities decreased \$1,477,937, from \$25,638,608 to \$24,160,671, primarily due to recording of annual depreciation. Business-Type Activities increased \$2,604,105, from \$42,237,181 to \$44,841,286. The nature of the Business-Type Activities increase is primarily related to Sewer and Water System improvements, financed by low-interest loans from the State of Michigan. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and park facilities, as well as roads, highways and bridges, and water/wastewater infrastructure. The total increase in the City of Adrian's investment in capital assets for the current fiscal year was 1.7 percent (a 5.8 percent decrease for governmental activities and a 6.2 percent increase for business-type activities).

CITY OF ADRIAN'S CAPITAL ASSETS (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$7,571,138	\$7,510,774	\$ 904,592	\$ 904,592	\$8,475,730	\$8,415,366
Land Improvements	5,622,162	5,619,942	1,064,916	1,233,698	6,687,078	6,853,640
Buildings and Systems	1,831,430	1,904,910	0	0	1,831,430	1,904,910
Utility Systems	0	0	38,522,395	38,636,014	38,522,395	38,636,014
Machinery & Equipment	4,548,895	5,356,539	254,708	199,544	4,803,603	5,556,083
Infrastructure	4,587,046	5,246,443	0	0	4,587,046	5,246,443
Construction - In-Progress	0	0	4,094,675	1,263,333	4,094,675	1,263,333
Total Capital Assets	\$24,160,671	\$25,638,608	\$44,841,286	\$42,237,181	\$69,001,957	\$67,875,789

Additional information regarding the City of Adrian's capital assets can be found in note Note 3.C. (pages 71-74) of this report.

Long-Term Liabilities. At the end of the current fiscal year, the City of Adrian had total long-term liabilities of \$17,857,354. Of this amount, \$984,260 comprises debt backed by the full faith and credit of the City and \$16,418,031 of the debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds). Included in the former is \$884,260 for an installment purchase contract through the Bank of Lenawee for purchases the acquisition of park property in Adrian and Madison Townships (since annexed to the City), and \$100,000 remaining on an \$800,000 bond issue for Storm Water Utility, which will be completely repaid in September, 2006. In addition, Accrued Sick and Vacation Compensation amounts to \$455,360. The City of Adrian's long-term liabilities increased by \$2,332,881 during the current fiscal year. The key factor contributing to this increase was draw downs on the Sewer Revolving Fund Loan for on-going Wastewater System Improvements.

CITY OF ADRIAN'S LONG-TERM LIABILITIES
General Obligation and Revenue Bonds
Installment Purchase Obligations
Accrued Sick and Vacation

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$ 0	\$ 0	\$ 100,000	\$ 200,000	\$ 100,000	\$ 200,000
Revenue Bonds	0	0	16,418,031	14,015,000	16,418,031	14,015,000
Installment Purchase	884,260	1,612,360	0	0	884,260	1,612,360
Accrued Sick & Vacation	313,360	263,629	141,703	111,853	455,063	375,482
Total Long-Term Liabilities	\$1,197,620	\$1,875,989	\$16,659,734	\$14,326,853	\$17,857,354	\$16,202,842

On June 30, 2004, the City of Adrian had a number of debt issues outstanding. These issues consisted of general obligation bonds and revenue bonds. The City has maintained an A1 bond rating from Moody's Investor Services and an A rating from Standard & Poor's on general obligation issues. Under current State statutes, the City's general obligation outstanding debt amount is subject to a legal limitation based on 10 percent of total assessed value of real and personal property. As of June 30, 2006 the City's net general obligation bond and installment debt of \$984,260 was well below the legal limit of \$42,690,402 and General Obligation debt per capita equaled \$44.31, a year-to-year decrease of \$37.27. During the year, the City issued no new General Obligation bonds.

Additional information on the City of Adrian's long-term debt can be found in Note 3 on page 82 of this report.

Economic Factors and Next Year's Budgets and Rates

- The FY2005-06 Budget Recommendation was submitted at a time when economic conditions were improving and corporate earnings were moving in the right direction.
- The unemployment rate for Lenawee County for June is 6.2 percent, which is a decrease from a rate of 6.4 percent a year ago. This compares with the State's average unemployment rate of 5.6 percent and the national average rate of 4.7 percent.
- Inflationary trends in the region compare favorably with national indices.

All of these factors were considered in preparing the City of Adrian's budget for the 2006-07 fiscal year. Also during the current fiscal year, unreserved fund balance in the General Fund stands at \$5,558,816 (equivalent to almost six months worth of expenditures at current spending levels). The City of Adrian has appropriated \$131,327 of the Unrestricted Fund Balance amount for spending in the 2006-07 fiscal year budget, \$244,015 less than last year. It is intended that the use of available fund balance will avoid the need to raise taxes for General Fund operations.

Water and Sewer Rates are anticipated to increase, reflecting the need to fund increased debt service for infrastructure improvements to both systems, as well as compensating for the anticipated sales volume decrease attributable to Madison Township's construction of a redundant waste water treatment system that is diverting flows from the Gus Harrison State Correctional Facility.

Requests for Information

This financial report is designed to provide a general overview of the City of Adrian's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, 100 E. Church Street, Adrian, Michigan 49221 or call 517-264-4824.

CITY
OF
ADRIAN

CITY OF ADRIAN, MICHIGAN
STATEMENT OF NET ASSETS

June 30, 2006
 With Comparative Totals for June 30, 2005

	<u>PRIMARY GOVERNMENT</u>			<u>COMPONENT UNITS</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>	
ASSETS:						
Cash and cash equivalents	\$ 1,764,235	\$ 946,341	\$ 2,710,576	\$ 460,687	\$ 47,439	
Investments	7,022,495	121,567	7,144,062	14,437		
Receivables (net of allowance for uncollectibles)	694,990	1,184,944	1,879,934			
Due from component units	258	258	258	9,500		
Due from other governments	308,258	45,158	353,416			
Internal balances	176,895	(176,895)				
Inventories	156,577	143,030	299,607			
Prepaid expense	35,495	10,035	45,530			
Restricted assets:						
Temporarily restricted:						
Cash and cash equivalents		263,420	263,420			
Investments		1,256,110	1,256,110			
Permanently restricted:						
Cash and cash equivalents						
Investments	20,637	20,637	20,637			
Capital Assets (Net of accumulated depreciation):						
Land						
Land improvements	7,571,138	904,592	8,475,730			
Buildings	5,622,162	1,064,916	6,687,078	690,494		
Utility systems	1,831,430		1,831,430			782,000
Machinery, equipment, and furnishings		38,522,395	38,522,395			
Infrastructure	4,548,895	254,708	4,803,603			
Construction in progress	4,587,046	4,587,046	9,174,092			
		4,094,675	4,094,675			
Total assets	\$ 35,209,239	\$ 48,634,956	\$ 83,844,235	\$ 1,175,118	\$ 829,439	

	<u>PRIMARY GOVERNMENT</u>			<u>COMPONENT UNITS</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>	
LIABILITIES:						
Accounts payable and other current liabilities	\$ 777,564	\$ 556,228	\$ 1,333,792	\$ 93,358	\$	
Accrued interest payable	31,167		31,167	45,575	65,000	
Due to primary government				258		
Due to other governments		8,183	8,183			
Unearned revenue	30,096		30,096			
Liabilities paid from restricted assets		101,549	101,549			
Noncurrent liabilities:						
Due within one year	292,051	750,931	1,042,982	85,000		
Due in more than one year	905,569	15,908,803	16,814,372	405,000	764,100	
Total liabilities	2,036,447	17,325,694	19,362,141	629,191	829,100	
NET ASSETS:						
Invested in capital assets, net	23,276,411	28,323,256	51,599,667	200,494	17,900	
Related debt						
Reserved for:						
Public safety	139,843		139,843			
Community/economic development	445,374		445,374			
Highways and streets	2,217,552		2,217,552			
Debt service		1,417,981	1,417,981	2,009	47,439	
Endowment:						
Expendable	66,850		66,850			
Nonexpendable	80,627		80,627			
Perpetual care	772,046		772,046			
Other purposes	146,755		146,755			
Unrestricted	6,027,334	1,568,065	7,595,399	343,424	(65,000)	
Total net assets	\$ 33,172,792	\$ 31,309,302	\$ 64,482,094	\$ 545,927	\$ 339	

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF ACTIVITIES

For Fiscal Year Ended June 30, 2006
With Comparative Totals for Fiscal Year Ended June 30, 2005

		<u>PROGRAM REVENUES</u>		
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>
Functions/Programs				
Primary Government:				
Governmental activities:				
General government	\$ 2,450,722	\$ 978,001	\$ 35,260	\$
Public safety	4,912,898	559,959		
Public works	1,122,058	27,872		
Culture and recreation	2,447,601	494,618	656,057	
Other services	1,668,073	197,457	11,589	
Community/economic development	599,690	302,534	123,000	44,070
Highways, streets, and bridges	2,418,910	105,412	64,590	24,944
Interest on long term debt	3,112			
Total governmental activities	<u>15,623,064</u>	<u>2,665,853</u>	<u>890,496</u>	<u>69,014</u>
Business-type Activities:				
Wastewater system	3,731,181	2,711,762		
Water system	2,924,884	2,910,664		
Dial-A-Ride system	455,245	87,590	228,039	110,932
Automobile parking system	116,399	46,841		
Storm water utility	<u>227,688</u>	<u>281,679</u>		
Total business-type activities	<u>7,455,397</u>	<u>6,038,536</u>	<u>228,039</u>	<u>110,932</u>
Total primary government	<u>\$ 23,078,461</u>	<u>\$ 8,704,389</u>	<u>\$ 1,118,535</u>	<u>\$ 179,946</u>
Component Units:				
Downtown Development Authority	385,172	\$	\$	\$
Local Development Finance Authority	<u>132,421</u>			
Total component units	<u>\$ 517,593</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General Revenues:				
Property taxes				
Sales tax				
Motor vehicle fuel tax				
Grants and contributions not restricted to specific programs				
Unrestricted investment earnings				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets – beginning of year				
Adjustment for prior year property taxes (Note 3.1.)				
Net assets – end of year				

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF ACTIVITIES

For Fiscal Year Ended June 30, 2006
With Comparative Totals for Fiscal Year Ended June 30, 2005

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

PRIMARY GOVERNMENT				COMPONENT UNITS	
Governmental Activities	Business-type Activities	Totals		Downtown Development Authority	Local Development Finance Authority
		2006	2005		
\$ (1,472,721)		\$ (1,472,721)	\$ (1,541,333)	\$	\$
(4,317,679)		(4,317,679)	(4,244,002)		
(1,094,186)		(1,094,186)	(783,994)		
(1,296,926)		(1,296,926)	(890,390)		
(1,459,027)		(1,459,027)	(1,357,245)		
(130,086)		(130,086)	(133,709)		
(2,223,964)		(2,223,964)	(2,360,736)		
(3,112)		(3,112)	(69,369)		
<u>(11,997,701)</u>	<u>-</u>	<u>(11,997,701)</u>	<u>(11,380,778)</u>	<u>-</u>	<u>-</u>
	(1,019,419)	(1,019,419)	(792,290)		
	(14,220)	(14,220)	(133,842)		
	(28,684)	(28,684)	(190,695)		
	(69,558)	(69,558)	(72,442)		
	<u>53,991</u>	<u>53,991</u>	<u>19,234</u>		
<u>-</u>	<u>(1,077,890)</u>	<u>(1,077,890)</u>	<u>(1,170,035)</u>	<u>-</u>	<u>-</u>
<u>\$ (11,997,701)</u>	<u>\$ (1,077,890)</u>	<u>\$ (13,075,591)</u>	<u>\$ (12,550,813)</u>	<u>\$ -</u>	<u>\$ -</u>
\$	\$	\$	\$	\$ (385,172)	\$
					(132,421)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (385,172)</u>	<u>\$ (132,421)</u>
6,869,387		6,869,387	\$ 6,528,844	284,372	123,722
2,408,301		2,408,301	2,435,992		
1,309,222		1,309,222	1,347,902		
75,785		75,185	12,346	4,695	
358,274	67,409	425,683	370,336	8,726	322
<u>(120,930)</u>	<u>120,930</u>				
<u>10,900,039</u>	<u>188,339</u>	<u>11,088,378</u>	<u>10,695,420</u>	<u>297,793</u>	<u>124,044</u>
(1,097,662)	(889,551)	(1,987,213)	(1,855,393)	(87,379)	(8,377)
34,270,454	32,198,853	66,469,307	68,469,307	696,961	8,716
				<u>(63,655)</u>	
<u>\$ 33,172,792</u>	<u>\$ 31,309,302</u>	<u>\$ 64,482,094</u>	<u>\$ 66,469,307</u>	<u>\$ 545,927</u>	<u>\$ 339</u>

CITY OF ADRIAN, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2006
With Comparative Totals for June 30, 2005

ASSETS	General	Major Streets	Local Streets	Fee And Public-Purpose	Other Governmental Funds	Totals Governmental Funds
					2006	2005
Cash and cash equivalents	\$ 5,585,200	\$ 1,017,113	\$ 44,128	\$ 1,330	\$ 399,542	\$ 1,462,113
Investments at cost		1,249,703		146,807	909,513	7,891,223
Receivables:						
Accounts	145,350	9,266		185,114	163,501	503,231
Loans					176,759	176,759
Due from other funds	458,391	231	172,627		40,208	671,457
Due from component units	258					258
Due from other governments	308,258					308,258
Inventories:						
Land held for resale, at cost					7,499	7,499
Supplies at cost	149,078				149,078	122,816
Prepaid cost	35,495					35,495
Total assets	\$ 6,682,030	\$ 2,276,313	\$ 216,755	\$ 333,251	\$ 1,697,022	\$ 11,205,371
						\$ 12,042,691
LIABILITIES AND FUND BALANCE						
Liabilities:						
Vouchers payable	266,479	16,041	66,110		150,917	499,547
Accrued liabilities	251,809	1,122	2,929		3,823	259,683
Due to other funds	96,711	156,397	67,901	179,265	2,558	502,832
Unearned revenue	22,865			7,231		30,096
Total liabilities	637,864	173,560	136,940	186,496	157,298	1,292,158
						\$ 1,604,291
Fund Balances:						
Reserved For:						
Perpetual care					764,547	753,085
Endowment					80,627	85,649
Loans					176,759	229,261
Inventories and prepayments	184,573				7,499	172,169
Encumbrances	300,777	379,079	79,815		154,682	817,532
Unreserved, Reported In:						
General Fund – Designated	3,406,734				3,406,734	4,406,166
General Fund – Undesignated	2,152,082				2,152,082	1,351,947
Special Revenue Funds – Undesignated		1,723,674		146,755	288,760	2,556,197
Endowment – Undesignated					66,850	66,394
Total fund balances	6,044,166	2,102,753	79,815	146,755	1,539,724	10,438,400
Total liabilities and fund balance	6,682,030	\$ 2,276,313	\$ 216,755	\$ 333,251	\$ 1,697,022	\$ 12,042,691

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

**RECONCILIATIONS OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	\$ 24,160,671	\$ 25,638,608
Personal property taxes receivable are not expected to be collected in the current period and, therefore, deferred in governmental funds (presented net of allowance for uncollectibles).	15,000	15,000
Accrued interest payable on long term debt is recognized in governmental funds when paid and not when accrued.	(31,167)	(69,369)
Long-term portion of accrued sick and vacation pay liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(313,360)	(263,629)
Bond and loan indebtedness are recognized in the governmental funds when paid and not when accrued.	(884,260)	(1,612,360)
Internal Service Fund (Information Technology Fund) is used by management to charge the costs of management information systems to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	<u>312,695</u>	<u>123,804</u>
Net differences	23,259,579	23,832,054
Total fund balance in governmental funds	<u>9,913,213</u>	<u>10,438,400</u>
Total net assets of governmental activities	<u>\$ 33,172,792</u>	<u>\$ 34,270,454</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2006
With Comparative Totals for Fiscal Year Ended June 30, 2005

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fee And Public-Purpose</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u> <u>2006</u>	<u>2005</u>
Revenues:							
Taxes	\$ 6,237,099	\$	\$	\$	\$ 421,928	\$ 6,659,027	\$ 6,433,580
Other tax related revenue	210,360					210,360	87,764
Licenses and permits	486,327					486,327	262,278
Intergovernmental – Federal					281,485		13,141
Intergovernmental – State	2,476,049	1,088,316	389,008			3,953,373	3,958,348
Charges for services	64,380					64,380	63,631
Use and admission charges	363,084					363,084	336,219
Fines and fees	290,659					290,659	324,033
Investment earnings	277,654	45,892		1,351	33,377	358,274	236,936
Fee Trust – for beautification purposes				656,057		656,057	763,001
Other	480,957	5,000	84,398	11,589	207,982	705,528	806,513
Special assessments						84,398	24,944
Contribution from DDA	31,388				11,482	42,870	46,834
Total revenues	<u>10,917,957</u>	<u>1,139,208</u>	<u>473,406</u>	<u>668,997</u>	<u>956,254</u>	<u>14,155,822</u>	<u>13,357,222</u>
Expenditures:							
Current:							
General government	2,069,689					2,069,689	2,189,291
Public safety	4,760,712			11,589	61,457	4,833,758	4,818,431
Public works	965,312					965,312	1,098,841
Culture and recreation	2,303,512					2,303,512	2,260,361
Other services	1,144,559				5,000	1,149,559	1,062,495
Community/Economic Development					595,793	595,793	276,273
Highways, streets, and bridges			1,160,658			1,867,403	2,644,686
Debt Service:							
Principal retirement	728,100					728,100	198,448
Interest and fiscal charges	41,314					41,314	78,673
Total expenditures	<u>12,013,198</u>	<u>706,745</u>	<u>1,160,658</u>	<u>11,589</u>	<u>662,250</u>	<u>14,554,440</u>	<u>14,627,499</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,095,241)</u>	<u>432,463</u>	<u>(687,252)</u>	<u>657,408</u>	<u>294,004</u>	<u>(398,618)</u>	<u>(1,270,277)</u>

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fee And Public-Purpose</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u> <u>2006</u>	<u>2005</u>
Other financing sources (uses):							
Transfers in	\$ 742,445	\$	\$ 687,255	\$	\$ 11,482	\$ 1,441,182	\$ 1,385,504
Transfers out	<u>(165,406)</u>	<u>(244,900)</u>		<u>(656,057)</u>	<u>(501,388)</u>	<u>(1,567,751)</u>	<u>(1,661,750)</u>
Total other financing sources (uses)	<u>577,039</u>	<u>(244,900)</u>	<u>687,255</u>	<u>(656,057)</u>	<u>(489,906)</u>	<u>(126,569)</u>	<u>(276,246)</u>
Net change in fund balance	(518,202)	187,563	3	1,351	(195,902)	(525,187)	(1,546,523)
Fund balances at beginning of year	<u>6,562,368</u>	<u>1,915,190</u>	<u>79,812</u>	<u>145,404</u>	<u>1,735,626</u>	<u>10,438,400</u>	<u>11,984,923</u>
Fund balances at end of year	<u>\$ 6,044,166</u>	<u>\$ 2,102,753</u>	<u>\$ 79,815</u>	<u>\$ 146,755</u>	<u>\$ 1,539,724</u>	<u>\$ 9,913,213</u>	<u>\$ 10,438,400</u>

CITY OF ADRIAN, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For Fiscal Years Ended June 30, 2006 and 2005

	<u>2006</u>		<u>2005</u>
Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balances are different because:			
Net change in fund balance –	\$ (525,187)	\$	\$ (1,546,523)
Government funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. (Total depreciation \$2,823,989 less total capital outlay (\$1,346,051).	(1,477,938)		66,549
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the governmental funds – net effect on recognizing accrued personal property taxes.			7,500
This issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.			
Debt incurred during current year			
Less: Principal repayment	<u>728,101</u>		<u>198,448</u>
Net	<u>728,101</u>	728,101	<u>198,448</u> 198,448
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			
Accrued interest – net effect	38,202		9,304
Accrued long-term sick and vacation – net effect	(49,731)		45,914
Internal Service Fund is used by management to charge the costs of management information systems to individual funds.			
	<u>188,891</u>		<u>123,804</u>
Change in net assets in governmental activities	<u>\$ (1,097,662)</u>		<u>\$ (1,095,004)</u>

The notes to the financial statements are an integral part of this statement.

(Page 1 of 3)
CITY OF ADRIAN, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 6,410,655	\$ 6,410,655	\$ 6,237,099	\$ (173,556)
Other tax related revenue	76,000	76,000	210,360	134,360
Licenses and permits	198,750	388,750	486,327	97,577
Intergovernmental	2,504,000	2,621,228	2,476,049	(145,179)
Charges for services	66,000	66,000	64,380	(1,620)
Uses and admission charges	330,700	340,700	363,084	22,384
Fines and fees	316,000	296,000	290,659	(5,341)
Investment earnings	200,000	250,000	277,654	27,654
Miscellaneous	750,242	1,501,642	480,957	(1,020,685)
Contributions from DDA	31,933	31,933	31,388	(545)
Total revenues	<u>10,884,280</u>	<u>11,982,908</u>	<u>10,917,957</u>	<u>(1,064,951)</u>
Expenditures:				
Current:				
General Government:				
City Commission	127,142	130,462	119,764	10,698
City Administrator	219,666	272,766	278,967	(6,201)
Election Department	21,293	21,293	69,506	(48,213)
Finance Department	297,567	312,647	308,891	3,756
City Assessor	300,426	300,522	255,562	44,960
City Attorney	173,528	201,940	192,783	9,157
City Clerk	105,069	109,796	112,036	(2,240)
Human Resources	216,181	216,241	189,003	27,238
City Hall	149,300	169,300	211,790	(42,490)
Cemetery	298,600	306,220	331,387	(25,167)
Total general government	<u>1,908,772</u>	<u>2,041,187</u>	<u>2,069,689</u>	<u>(28,502)</u>
Public Safety:				
Police Department	2,867,909	2,940,455	2,830,379	110,076
Fire Department	1,478,715	1,595,105	1,500,725	94,380
Community Development	495,624	462,220	429,608	32,612
Total public safety	<u>4,842,248</u>	<u>4,997,780</u>	<u>4,760,712</u>	<u>237,068</u>
Total expenditures carried forward	<u>6,751,020</u>	<u>7,038,967</u>	<u>6,830,401</u>	<u>208,566</u>

The notes to the financial statements are an integral part of this statement.

(Page 2 of 3)
CITY OF ADRIAN, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Total expenditures carried forward	<u>6,751,020</u>	<u>7,038,967</u>	<u>6,830,401</u>	<u>208,566</u>
Public Works:				
Department of Public Works	227,787	291,102	224,477	65,625
Stores - Central Supply	39,000	39,000	(69,847)	108,847
Motor Vehicle Pool	(147,500)	(147,500)	(180,801)	33,301
Sidewalks	58,000	58,000	54,524	3,476
Engineering	150,387	198,967	179,113	19,854
Street Lighting	130,100	130,100	126,808	3,292
Winter Maintenance		3,000	3,039	(39)
Waste Collection and Disposal	<u>663,100</u>	<u>663,100</u>	<u>626,999</u>	<u>36,101</u>
Total public works	<u>1,120,874</u>	<u>1,235,769</u>	<u>965,312</u>	<u>270,457</u>
Culture and Recreation:				
Recreation Department	1,007,425	1,014,625	1,073,618	(58,993)
Parks and Forestry Department	364,145	486,150	493,613	(7,463)
Parks and Forestry – Heritage Park	134,678	134,678	121,722	12,956
Fee Estate Maintenance	<u>692,923</u>	<u>600,252</u>	<u>614,559</u>	<u>(14,307)</u>
Total culture and recreation	<u>2,199,171</u>	<u>2,235,705</u>	<u>2,303,512</u>	<u>(67,807)</u>
Other Services:				
Library	783,664	782,744	790,142	(7,398)
Planning Commission	22,000	35,000	35,796	(796)
Beautification – Parks (Fee)	748,900	748,900	41,497	707,403
Park Capital	92,000	270,000	246,353	23,647
Other Projects	26,248	26,248	11,262	14,986
Other	<u>78,169</u>	<u>22,140</u>	<u>19,509</u>	<u>2,631</u>
Total other services	<u>1,750,981</u>	<u>1,885,032</u>	<u>1,144,559</u>	<u>740,473</u>
Debt Service:				
Principal	207,751	728,100	728,100	
Interest	<u>69,369</u>	<u>107,588</u>	<u>41,314</u>	<u>66,274</u>
Total debt service	<u>277,120</u>	<u>835,688</u>	<u>769,414</u>	<u>66,274</u>
Total expenditures	<u>12,099,166</u>	<u>13,231,161</u>	<u>12,013,198</u>	<u>1,217,963</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,214,886)</u>	<u>(1,248,253)</u>	<u>(1,095,241)</u>	<u>153,012</u>

The notes to the financial statements are an integral part of this statement.

(Page 3 of 3)
CITY OF ADRIAN, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses):				
Transfers in	1,508,755	1,508,755	742,445	(766,310)
Transfers out	<u>(293,869)</u>	<u>(260,502)</u>	<u>(165,406)</u>	<u>95,096</u>
Total other financing sources (uses)	<u>1,214,886</u>	<u>1,248,253</u>	<u>577,039</u>	<u>(671,214)</u>
Net change in fund balance			(518,202)	(518,202)
Fund balance at beginning of year	<u>6,562,368</u>	<u>6,562,368</u>	<u>6,562,368</u>	<u>-</u>
Fund balance at end of year	<u>\$ 6,562,368</u>	<u>\$ 6,562,368</u>	<u>\$ 6,044,166</u>	<u>\$ (518,202)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

MAJOR STREETS SPECIAL REVENUE FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental – State	\$ 1,050,535	\$ 1,050,535	\$ 1,088,316	\$ 37,781
Investment earnings	14,000	14,000	45,892	31,892
Other		12,000	5,000	(7,000)
Total revenues	<u>1,064,535</u>	<u>1,076,535</u>	<u>1,139,208</u>	<u>62,673</u>
Expenditures:				
Highways, streets, and bridges:				
Street construction	260,596	260,596	189,845	70,751
Routine maintenance – streets	153,400	165,400	177,677	(12,277)
Routine maintenance – bridges	2,400	2,400		2,400
Maintenance – State trunklines	69,000	69,000	45,931	23,069
Traffic service	98,300	98,300	179,405	(81,105)
Winter maintenance	71,000	71,000	49,687	21,313
Administration	30,000	30,000	32,116	(2,116)
Non-motorized transportation	25,000	25,000	32,084	(7,084)
Other	<u>254,839</u>	<u>254,839</u>		<u>254,839</u>
Total expenditures	<u>964,535</u>	<u>976,535</u>	<u>706,745</u>	<u>269,790</u>
Excess (deficiency) of revenues over (under) expenditures	<u>100,000</u>	<u>100,000</u>	<u>432,463</u>	<u>332,463</u>
Other financing sources (uses):				
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(244,900)</u>	<u>(144,900)</u>
Total other financing sources (uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(244,900)</u>	<u>(144,900)</u>
Net change in fund balance			187,563	187,563
Fund balance – beginning of year	<u>1,915,190</u>	<u>1,915,190</u>	<u>1,915,190</u>	-
Fund balance – end of year	<u>\$ 1,915,190</u>	<u>\$ 1,915,190</u>	<u>\$ 2,102,753</u>	<u>\$ 187,563</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

LOCAL STREETS SPECIAL REVENUE FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Intergovernmental – State	\$ 397,500	\$ 397,500	\$ 389,008	\$ (8,492)
Special assessment	80,487	80,487	84,398	3,911
Investment earnings	<u>100</u>	<u>100</u>	<u> </u>	<u>(100)</u>
Total revenues	<u>478,087</u>	<u>478,087</u>	<u>473,406</u>	<u>(4,681)</u>
Expenditures:				
Highways, streets, and bridges:				
Street construction	399,023	399,023	754,230	(355,207)
Routine maintenance – streets	286,200	286,200	287,000	(800)
Routine maintenance – bridges	500	500		500
Traffic service	41,000	41,000	39,378	1,622
Winter maintenance	49,000	49,000	34,982	14,018
Administration	45,904	45,904	45,068	836
Other	<u>206,158</u>	<u>206,158</u>	<u> </u>	<u>206,158</u>
Total expenditures	<u>1,027,785</u>	<u>1,027,785</u>	<u>1,160,658</u>	<u>(132,873)</u>
Deficiency of revenues under expenditures	<u>(549,698)</u>	<u>(549,698)</u>	<u>(687,252)</u>	<u>(137,554)</u>
Other financing sources (uses):				
Transfers in	<u>549,698</u>	<u>549,698</u>	<u>687,255</u>	<u>137,557</u>
Total other financing sources (uses)	<u>549,698</u>	<u>549,698</u>	<u>687,255</u>	<u>137,557</u>
Net change in fund balance			3	3
Fund balance – beginning of year	<u>79,812</u>	<u>79,812</u>	<u>79,812</u>	<u>-</u>
Fund balance – end of year	<u>\$ 79,812</u>	<u>\$ 79,812</u>	<u>\$ 79,815</u>	<u>\$ 3</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2006
With Comparative Totals for June 30, 2005

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds 2006</u>	<u>2005</u>	<u>Information Technology</u>
Current assets:						
Cash and cash equivalents	\$ 417,114	\$ 121,818	\$ 407,409	\$ 946,341	\$ 906,332	\$ 322,759
Investments	121,567			121,567	1,205,571	
Receivables:						
Accounts	340,859	342,831	320	684,010	721,788	
Special assessments			409,804	409,804	476,156	
Deferred assessments	68,501	22,629		91,130	22,629	
Due from other funds			55,900	55,900	328,560	8,270
Due from other governments			45,158	45,158	71,838	
Inventories		143,030		143,030	120,650	
Prepaid expense	<u>3,470</u>	<u>6,565</u>		<u>10,035</u>	<u>12,532</u>	
	951,511	636,873	918,591	2,506,975	3,866,056	331,029
Restricted assets available for current liabilities:						
Customer deposit – cash		15,580		15,580	15,030	
Bond interest and redemp- tion account – investment	328,450			328,450	586,092	
Bond interest and redemp- tion account – cash		<u>208,875</u>	<u>2,000</u>	<u>210,875</u>	<u>87,474</u>	
Total current assets	<u>1,279,961</u>	<u>861,328</u>	<u>920,591</u>	<u>3,061,880</u>	<u>4,554,652</u>	<u>331,029</u>
Noncurrent assets:						
Restricted investments						
Bond reserve – cash		36,965		36,965		
Bond reserve – investment	223,000	104,660		327,660	200,000	
Replacement account – investment	<u>500,000</u>	<u>100,000</u>		<u>600,000</u>	<u>600,000</u>	
Total noncurrent restricted assets	<u>723,000</u>	<u>241,625</u>	<u>-</u>	<u>964,625</u>	<u>800,000</u>	<u>-</u>
Capital assets:						
Land	163,164	102,928	638,500	904,592	904,592	
Utility systems	37,286,648	22,449,876	2,380,243	62,116,767	60,902,246	
Land improvements			1,582,008	1,582,008	1,582,008	
Equipment			717,521	717,521	664,021	
Less: Accumulated depreciation	(15,037,853)	(7,509,231)	(2,027,194)	(24,574,278)	(23,079,019)	
Construction in progress	<u>3,571,146</u>	<u>523,530</u>		<u>4,094,676</u>	<u>1,263,333</u>	
Net capital assets	<u>25,983,105</u>	<u>15,567,103</u>	<u>3,291,078</u>	<u>44,841,286</u>	<u>42,237,181</u>	<u>-</u>
Total noncurrent assets	<u>26,706,105</u>	<u>15,808,728</u>	<u>3,291,078</u>	<u>45,805,911</u>	<u>43,037,181</u>	<u>-</u>
Total assets	<u>\$ 27,986,066</u>	<u>\$ 16,670,056</u>	<u>\$ 4,211,669</u>	<u>\$ 48,867,791</u>	<u>\$ 47,591,833</u>	<u>\$ 331,029</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2006
With Comparative Totals for June 30, 2005

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds</u>		<u>Information Technology</u>
LIABILITIES:				<u>2006</u>	<u>2005</u>	
Current liabilities:						
Vouchers payable	\$ 475,818	\$ 51,609	\$ 2,598	\$ 530,025	\$ 370,855	\$ 18,334
Accrued liabilities	9,709	11,524	4,970	26,203	61,584	
Due to other funds	10,971	11,363	210,461	232,795	518,743	
Due to other governments			8,183	8,183	6,349	
General obligation bonds payable – current			100,000	100,000	100,000	
DWRF/SRF bonds payable – current	<u>365,000</u>	<u>235,000</u>		<u>600,000</u>	<u>580,000</u>	
	861,498	309,496	326,212	1,497,206	1,637,531	18,334
Current liabilities payable from restricted assets:						
Customer deposits payable		15,580		15,580	15,030	
Accrued interest	<u>51,344</u>	<u>32,625</u>	<u>2,000</u>	<u>85,969</u>	<u>93,566</u>	
Total current liabilities	<u>912,842</u>	<u>357,701</u>	<u>328,212</u>	<u>1,598,755</u>	<u>1,746,127</u>	<u>18,344</u>
Noncurrent liabilities:						
Accrued sick and vacation pay	55,098	86,605		141,703	111,853	
General obligation bonds					100,000	
DWRF Bonds		4,985,000		4,985,000	5,220,000	
SRF Bonds	<u>10,833,031</u>			<u>10,833,031</u>	<u>8,215,000</u>	
Total noncurrent liabilities	<u>10,888,129</u>	<u>5,071,605</u>		<u>15,959,734</u>	<u>13,646,853</u>	<u>-</u>
Total liabilities	<u>11,800,971</u>	<u>5,429,306</u>	<u>328,212</u>	<u>17,558,489</u>	<u>15,392,980</u>	<u>18,334</u>
NET ASSETS						
Invested in capital assets, net of related debt	14,785,074	10,347,104	3,191,078	28,323,256	28,022,181	
Restricted for debt service	500,106	317,875		817,981	780,000	
Restricted for replacement	500,000	100,000		600,000	600,000	
Unrestricted	<u>399,915</u>	<u>475,771</u>	<u>692,379</u>	<u>1,568,065</u>	<u>2,796,672</u>	<u>312,695</u>
Total net assets	<u>\$ 16,185,095</u>	<u>\$ 11,240,750</u>	<u>\$ 3,883,457</u>	<u>\$ 31,309,302</u>	<u>\$ 32,198,853</u>	<u>\$ 312,695</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

**For Fiscal Year Ended June 30, 2006
With Comparative Totals for Fiscal Year Ended June 30, 2005**

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds 2006</u>	<u>2005</u>	<u>Information Technology</u>
Operating revenues:						
Charges for services	\$ 2,686,315	\$ 2,622,799	\$ 415,563	\$ 5,724,677	\$ 5,760,421	\$ 485,197
Miscellaneous revenues	<u>25,447</u>	<u>287,865</u>	<u>547</u>	<u>313,859</u>	<u>335,137</u>	<u>5,311</u>
Total operating revenues	<u>2,711,762</u>	<u>2,910,661</u>	<u>416,110</u>	<u>6,038,536</u>	<u>6,095,558</u>	<u>490,508</u>
Operating expenses:						
Cost of services	2,545,247	2,330,251	684,237	5,559,730	5,590,275	307,256
Depreciation	<u>978,340</u>	<u>462,727</u>	<u>111,624</u>	<u>1,552,691</u>	<u>1,524,231</u>	
Total operating expenses	<u>3,523,587</u>	<u>2,792,978</u>	<u>795,856</u>	<u>7,112,421</u>	<u>7,114,506</u>	<u>307,256</u>
Operating income (loss)	<u>(811,825)</u>	<u>117,686</u>	<u>(379,746)</u>	<u>(1,073,885)</u>	<u>(1,018,948)</u>	<u>183,252</u>
Nonoperating revenues						
expenses:						
Intergovernmental – State			170,310	170,310	170,104	
Intergovernmental – Federal			57,729	57,729	52,354	
Interest revenue	32,531	12,531	22,347	67,409	133,400	
Interest expense	(207,594)	(131,906)	(3,476)	(342,976)	(373,545)	
Bond agent expense						
Total nonoperating revenues (expenses)	<u>(175,063)</u>	<u>(119,375)</u>	<u>246,910</u>	<u>(47,528)</u>	<u>(17,687)</u>	<u>-</u>
Income (loss) before contributions and transfers	(986,888)	(1,689)	(132,836)	(1,121,413)	(1,036,635)	183,252
Capital contribution			110,932	110,932	276,246	
Transfers in			148,285	148,285		5,639
Transfers out			<u>(27,355)</u>	<u>(27,355)</u>		
Change in net assets	(986,888)	(1,689)	99,026	(889,551)	(760,389)	188,891
Total net assets – beginning of year	<u>17,171,983</u>	<u>11,242,439</u>	<u>\$ 3,784,431</u>	<u>32,198,853</u>	<u>32,959,242</u>	<u>123,804</u>
Total net assets – end of year	<u>\$ 16,185,095</u>	<u>\$ 11,240,750</u>	<u>\$ 3,883,457</u>	<u>\$ 31,309,302</u>	<u>\$ 32,198,853</u>	<u>\$ 312,695</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For Fiscal Year Ended June 30, 2006
With Comparative Totals for Fiscal Year Ended June 30, 2005

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>				<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds</u> <u>2006</u>	<u>2005</u>	<u>Information Technology</u>
Cash flows from operating activities:						
Cash received from customers	\$ 2,717,416	\$ 3,238,818	\$ 393,290	\$ 6,349,524	\$ 5,788,767	\$ 579,274
Cash paid to suppliers	(1,753,081)	(1,587,815)	(383,858)	(3,724,754)	(3,062,764)	(316,619)
Cash paid to employees	(796,614)	(978,175)	(297,856)	(2,072,645)	(2,065,293)	
Net cash provided by (used in) operating activities	<u>167,721</u>	<u>672,828</u>	<u>(288,424)</u>	<u>552,125</u>	<u>660,710</u>	<u>262,655</u>
Cash flows from noncapital financing activities:						
Grant received – Federal			68,110	68,110	45,639	
Grant received – State			186,609	186,609	160,561	
Transfers from General Fund			207,808	207,808	291,508	5,639
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>462,527</u>	<u>462,527</u>	<u>497,708</u>	<u>5,639</u>
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(3,633,672)	(412,192)		(4,045,864)	(2,489,298)	
Principal paid on general obligation bonds			(100,000)	(100,000)	(145,000)	
Interest paid and agent fees on general obligation bonds	(209,812)		(7,449)	(217,261)	(22,931)	
Special assessments			82,683	82,683	99,187	
Special assessment revenue provided to other funds			(84,398)	(84,398)	(25,240)	
Principal paid on DWRF Bonds	(355,000)	(225,000)		(580,000)	(570,000)	
Interest paid on DWRF Bonds		(133,312)		(133,312)	(353,152)	
Bond proceeds – SRF Bonds	<u>2,983,031</u>			<u>2,983,031</u>		
Net cash provided by (used in) capital and related financing activities	<u>(1,215,453)</u>	<u>(770,504)</u>	<u>(109,164)</u>	<u>(2,095,121)</u>	<u>(3,506,434)</u>	<u>-</u>
Cash flows from investing activities:						
Investment securities purchased					(1,098,682)	
Proceeds on matured investment securities	941,116	272,870		1,213,986	2,629,077	
Interest income	<u>32,531</u>	<u>12,531</u>	<u>22,347</u>	<u>67,409</u>	<u>133,400</u>	
Net cash provided by investing activities	<u>973,647</u>	<u>285,401</u>	<u>22,347</u>	<u>1,281,395</u>	<u>1,663,795</u>	<u>-</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ <u>330,587</u>	\$ <u>461,012</u>
Total assets	\$ <u>330,587</u>	\$ <u>461,012</u>
 <u>LIABILITIES</u>		
Liabilities:		
Vouchers payable	\$ 14,675	\$ 24,380
Due to other taxing units	19,994	142,554
Restricted deposits	<u>295,918</u>	<u>294,078</u>
Total liabilities	\$ <u>330,587</u>	\$ <u>461,012</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Adrian, Michigan have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

Reporting Entity

The City of Adrian is a Michigan Municipal Corporation governed by an elected seven member commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component unit. The City of Adrian Building Authority is governed by a three member board appointed by the City Commission. Although it is legally separate from the City, the City of Adrian Building Authority is reported as if it was part of the primary government because its sole purpose is to finance the construction of City parking lots.

The City of Adrian Building Authority is reported in the financial statements as part of the 'Automobile Parking System Enterprise Fund', where the revenues of the fund are paying off the bond issue of the Authority.

Discretely presented component units.

Downtown Development Authority (DDA) was created as a separate legal entity under Public Act 197 of 1975 of the State of Michigan. The purpose of the DDA is to plan and develop the downtown area of the City and to attract new businesses and residents. The governing body of DDA is appointed by the City Commission for a fixed term. The City approves the annual budget and any capital projects of DDA. Prior approval by the City is needed on any taxation by DDA. And, the City's approval is needed for any borrowing done by DDA. The Downtown Development Authority is presented as a governmental fund type.

The other discretely presented component unit is the Local Development Finance Authority (LDFA) created under Public Act 281 of 1986 of the State of Michigan. The LDFA's purpose is to work toward the elimination of the causes of unemployment, underemployment and joblessness, and to promote economic growth in the City of Adrian. The City appoints the majority of the LDFA Board of Directors. The budget of the LDFA needs the City's approval. And, the main revenue source of LDFA which is tax increment financing is a financial burden to the City. The Local Development Finance Authority is presented as a governmental fund type.

Separate financial statements for each of the individual component units are not available.

CITY OF ADRIAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Fiduciary funds can be either trust funds or agency funds. Trust funds use the same economic resource measurement focus and accrual basis accounting as do proprietary funds. Agency funds report only assets and liabilities and these do not have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts due from other governments, loans receivable, Fee funding, and services provided associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The *Local Streets Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The *Fee and Public-Purpose Fund* is a Special Revenue Fund that receives funds that are restricted for specific public-purpose uses and can be fully expended for the restricted purpose or purposes.

The government reports the following major proprietary funds.

The *Wastewater System Fund* accounts for the acquisition, operation, and maintenance of the City's wastewater system.

The *Water System Fund* accounts for the acquisition, operation and maintenance of the City's water system.

Additionally, the government reports the following fund types:

The *Internal Service Fund (Information Technology Fund)* accounts for management information systems and services provided to other funds of the City on a cost reimbursement basis.

The *Agency Funds* account for assets held by the City acting as an agent for individuals, private organizations, other governments, and/or other funds. There are three agency funds. The Payroll Reduction Fund handles the payment of City payroll deductions to third parties. The Property Tax Fund accounts for the collection and payment of property taxes billed and collected by the city. The Trust and Agency Fund accounts for monies received from various sources and held by the City in a custodial or agent capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments of utility charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various function concerned.

Amounts reported as *program revenues* included 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary Funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Wastewater and Water Enterprise Funds are charges to customers for sales and services. The Wastewater and Water Enterprise Funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities, and net assets or equity.

1. Cash and investments

Cash includes amounts in cash on hand, demand deposits, and may include short-term investments with a maturity date within three months of the date acquired by the government.

Investments include Money Market Accounts, Certificates of Deposit, U.S. Agencies Securities, Mutual Funds, and Corporate Bonds.

State statutes authorize the government to invest in Money Market Accounts and Certificates of Deposit, Obligations of the U.S. Treasury, Federal Agencies, Commercial Paper, Corporate Bonds, Repurchase Agreements, and State approved Investment Pools.

Investments are stated at fair value.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. The City had no advances between funds at June 30, 2006.

Personal property taxes receivable is shown net of an allowance for uncollectibles.

Property taxes are levied as of July 1 on property values assessed as of the prior December 31. The billing is mailed on July 1 and is considered due upon receipt by the taxpayer; however, the actual due date is August 31. A lien on property occurs when property taxes are levied (July 1). On August 31, the bill becomes delinquent and penalties and interest may be assessed by the government.

Delinquent real property taxes are turned over to the County and reimbursed through a revolving fund. Therefore, property taxes receivable are not accounted for under the 60 day rule.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land improvements	20 – 50
Buildings	10 – 20
Machinery, equipment, and furnishings	5 – 35
Utility systems	50 – 100
Infrastructure	15 – 100

6. Compensated absences

Vacation leave benefits for City employees are based on past services rendered and are accrued as a liability based on the expected use of the benefits through paid time off and cash payments at termination or retirement. The accrued liability for vacation time is determined under the vesting method as defined by GASB Statement 16.

Sick leave for City employees is vested to the extent that cash payments are made (up to allowable limits) to employees upon retirement. The accrued liability for sick leave is determined under the termination method as defined by GASB Statement 16.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The current portion (the amount normally expected to be liquidated with expendable available financial resources) of accrued sick and vacation pay are shown as a liability and expenditure in the applicable governmental fund types. The portion recognized in the governmental funds is only the compensated absences that have matured at year end. The entire accrued sick and vacation pay related to governmental fund types is reported in the government-wide statements.

In the proprietary funds as well as in the government-wide statements, the vested sick and vacation pay are recorded as an expense and liability of those funds as the benefits accrue to employees.

7. Long-term obligations

In the governmental-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize any bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Comparative data/reclassification

Comparative data for the prior year have been presented in order to provide an understanding of the changes in the financial position and operations of the funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the Fee and Public-Purpose Special Revenue Fund and the permanent funds which are not budgeted. All annual appropriations lapse at fiscal year end.

On or before the last Tuesday of February each year, all departments of the City submit requests for appropriations to the Finance Director so that a budget may be prepared. With the first City Commission meeting in April, the proposed budget is presented to the City Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than the second week of May.

The appropriated budget is prepared by fund, function, and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department/activity level, i.e., City Commission, Finance Department, City Clerk. The Commission made supplemental budgetary appropriations throughout the year. The supplemental budgetary appropriations made in the General Fund were in anticipation of normal activity.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations in budgetary funds

P.A. 621 of 1978, Section 18(1), as amended, of the State of Michigan provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a department/activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level i.e., City Commission, Finance Department, City Clerk. One fund had total expenditures exceed budget – Local Street Fund.

During the year ended June 30, 2006, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

CITY OF ADRIAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

<u>Fund</u>	<u>Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
City Administrator	\$ 272,766	\$ 278,967	\$6 6,201
Election Department	21,293	69,506	48,213
City Clerk	109,796	112,036	2,240
City Hall	169,300	211,790	42,490
Cemetery	306,220	331,387	25,167
Public Works Winter Maintenance	3,000	3,039	39
Recreation Department	1,014,625	1,073,618	58,993
Parks and Forestry Department	486,150	493,613	7,463
Fee Estate Maintenance	600,252	614,559	14,307
Library	782,744	790,142	7,398
Planning Commission	35,000	35,796	796
Major Streets Fund			
Routine maintenance – streets	165,400	177,677	12,277
Traffic service	98,300	179,405	81,105
Administration	30,000	32,116	2,116
Non-motorized transportation	25,000	32,084	7,084
Transfers out	100,000	244,900	144,900
Local Streets Fund			
Street construction	399,023	754,230	355,207
Routine maintenance – streets	286,200	287,000	800
Total fund expenditures	1,027,785	1,160,658	132,873
Economic Development Fund			
Transfers out	5,000	25,000	20,000
Total fund expenditures			

These additional expenditures were funded by greater than anticipated revenues in the case of Major Streets. Local Streets funded the additional expenditures by additional transfers into fund. Economic Development covered additional transfers out by having less actual operating expenditures. And, General Fund covered its additional expenditures using fund balance.

C. Fund equity – designations

The City Commission has designated a part of the General Fund's unreserved fund balance for the following purposes:

1. DPW – Motor Pool – Depreciation Catch-Up	\$ 1,000,000
2. City Hall Renovations	1,300,000
3. Funding for Fiscal Year 2006-07 Budget	131,327
4. Property Acquisitions, Demolitions, and Options	150,000
5. Replace Fire Engine #1	250,000
6. Police Facility – First year Debt Service	200,000
7. Technology Infrastructure Upgrades (GIS, Other)	50,000
8. Telecommunication Upgrades	150,000
9. Bohn Pool – First year Debt Service	100,000
10. CRIMP Savings	50,407
11. Local Grant Match	25,000
Total Proposed Designations	<u>\$ 3,406,734</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of June 30, 2006, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Investment Maturities (In Years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
Money Market Accounts	\$ 433,453	\$ 433,453	\$	\$
Certificates of Deposit	3,226,321	1,264,139	1,290,788	671,394
U.S. Agencies	4,888,460	1,427,491	3,460,969	
Mutual Fund – Cash (U.S. Government Securities)	<u>735,103</u>	<u>735,103</u>		
Total fair value	<u>\$ 9,283,337</u>	<u>\$ 3,860,186</u>	<u>\$ 4,751,757</u>	<u>\$ 671,394</u>

Interest Rate Risk. City is exposed to interest rate risk with over 58% of investments maturing after one year. The City's investment policy has no provision limiting interest rate risk.

Credit Risk. The City's investment policy limits investments to certificates of deposit or money market accounts; U.S. Government and U.S. Agencies Securities; commercial paper with ratings at the two highest levels established by not less than two standard rating services; and corporate bonds, mutual funds, and repurchase agreements meeting State requirements. The money market accounts and mutual funds in the City's investments at June 30, 2006 were unrated.

Concentration of Credit Risk. The City's investment policy does not limit the amount of investment with any one issuer. For investments, more than five percent of the City's holdings were with Bank of Lenawee (13% of the City's total investments which represent 100% of Major Street Fund's investments) in the form of certificate of deposit. Also, United Bank and Trust had 13% of the City's total investments, which was 19% of the General Fund's investments and 89% of Fee and Public-Purpose Fund's investments in the form of money market funds and U.S. Agencies securities.

In addition, Sky Bank had 45% of the City's total investment, which was 69% of the investments of the General Fund and 100% of the investments in the Water Fund, in the form of U.S. Agencies securities and money market accounts. Key Bank had 9% of the City's total investment, which was 99% of the investments in Perpetual Care Fund and 42% of investment in Endowment Fund in the for of money market accounts and U.S. Agencies securities. .

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be fully returned to the City. Neither the City nor the discretely presented component units, have a policy limiting custodial credit risk, other than authorizing (through Commission approval) the depositories used. As of June 30, 2006, \$3,405,213 of the City's bank balance of \$3,705,213 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date, the discretely presented component units had exposure to custodial credit risk because \$439,514 of their bank balance of \$539,514 of was uninsured and uncollateralized.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Custodial Credit Risk – Investments. For the money market accounts and certificates of deposit which are with banks the exposure is the same as stated above for deposits. As of June 30, 2006, these investments with total balances of \$3,659,774 were exposed to custodial credit risk on the balance of \$2,031,120 as being uninsured and uncollateralized..

For the remaining investments, the risk is, in the event of failure of the counterparty, will the City be able to recover the value of its investments. The U.S. Agencies investments of \$4,888,460 are held by counterparties and the securities are uninsured and not registered in the name of the City, which exposes them to custodial credit risk. The mutual funds of \$735,103 are not exposed to custodial credit risk.

B. Receivables

Receivables as of year end for the government's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fee And Public- Purpose</u>	<u>Wastewater System</u>	<u>Water System</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:								
Taxes	\$ 504,524	\$	\$	\$	\$	\$	\$	\$ 504,524
Accounts	45,286	9,266		185,114	340,859	342,831	163,821	1,087,177
Special assessments					68,501	22,629	409,804	500,934
Intergovernmental	308,258						45,158	353,416
Community Development loans							176,759	176,759
Gross receivables	858,068	9,266		185,114	409,360	365,460	795,542	2,622,810
Less: Allowance for uncollectibles	<u>404,460</u>							<u>404,460</u>
Net total receivables	<u>\$ 453,608</u>	<u>\$ 9,266</u>	<u>\$</u>	<u>\$ 185,114</u>	<u>\$ 409,360</u>	<u>\$ 365,460</u>	<u>795,542</u>	<u>\$ 2,218,350</u>

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* reported in the government funds were as follows:

	<u>Unearned Revenue</u>
Funds for training classes to be held in the future	\$ 12,272
Donations restricted for library not yet earned	<u>10,593</u>
	<u>\$ 22,865</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,510,774	\$ 60,365	\$ -	\$ 7,571,139
Total capital assets, not being depreciated	<u>7,510,774</u>	<u>60,365</u>	<u>-</u>	<u>7,571,139</u>
Capital assets, being depreciated:				
Land improvements	6,157,866	60,354		6,218,220
Buildings	4,613,407	8,822		4,622,229
Machinery, equipment, and furnishings	11,112,671	93,189	(14,715)	11,191,145
Infrastructure	<u>32,293,406</u>	<u>1,123,322</u>	<u>-</u>	<u>33,416,728</u>
Total capital assets, being depreciated	<u>54,177,350</u>	<u>1,285,687</u>	<u>(14,715)</u>	<u>55,448,322</u>
Less: Accumulated depreciation for:				
Land improvements	(537,924)	(58,134)		(596,058)
Buildings	(2,708,497)	(82,302)		(2,790,799)
Machinery, equipment, and furnishings	(5,756,132)	(900,833)	14,715	(6,642,250)
Infrastructure	<u>(27,046,963)</u>	<u>(1,782,720)</u>	<u>-</u>	<u>(28,829,683)</u>
Total accumulated depreciation	<u>(36,049,516)</u>	<u>(2,823,989)</u>	<u>14,715</u>	<u>(38,858,790)</u>
Total capital assets, being depreciated, net	<u>18,127,834</u>	<u>(1,538,302)</u>	<u>-</u>	<u>(16,589,532)</u>
Governmental activities, capital assets – net	<u>\$ 25,638,608</u>	<u>\$ (1,477,937)</u>	<u>\$ -</u>	<u>\$ 24,160,671</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 904,592	\$	\$	\$ 904,592
Construction in progress	<u>1,263,333</u>	<u>2,831,342</u>		<u>4,094,675</u>
Total capital assets, not being depreciated	<u>2,167,925</u>	<u>2,831,342</u>		<u>4,999,267</u>
Capital assets, being depreciated:				
Land improvements	1,582,008			1,582,008
Utility systems	60,902,247	1,214,523		62,116,770
Machinery, equipment, and furnishings	<u>664,021</u>	<u>110,932</u>	<u>(57,431)</u>	<u>717,522</u>
Total capital assets, being depreciated	<u>63,148,276</u>	<u>1,325,455</u>	<u>(57,431)</u>	<u>64,416,300</u>
Less: Accumulated depreciation for:				
Land improvements	(348,310)	(168,782)		(517,092)
Utility systems	(22,266,233)	(1,328,139)		(23,594,372)
Machinery, equipment, and furnishings	<u>(464,477)</u>	<u>(55,770)</u>	<u>57,430</u>	<u>(462,817)</u>
Total accumulated depreciation	<u>(23,079,020)</u>	<u>(1,552,691)</u>	<u>57,430</u>	<u>(24,574,281)</u>
Total capital assets, being depreciated – net	<u>40,069,256</u>	<u>(227,236)</u>	<u>(1)</u>	<u>39,842,019</u>
Business-type activities, capital assets – net	<u>\$ 42,237,181</u>	<u>\$ 2,604,106</u>	<u>\$ (1)</u>	<u>\$ 44,841,286</u>

Interest expense of \$3,751 was capitalized in fiscal year 2005-06 due on current debt financed projects in progress.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 65,081
Public safety	141,589
Public works (includes sidewalks and street lights)	201,003
Culture and recreation (includes parks)	344,625
Other services (includes library)	572,859
Community/economic development	3,250
Highways, streets, and bridges	<u>1,495,582</u>

Total depreciation expense – governmental activities	<u>\$ 2,823,989</u>
---	---------------------

Business-type activities:

Wastewater system	\$ 978,340
Water system	462,727
Dial-A-Ride system	55,331
Automobile parking system	15,262
Storm water system	<u>41,031</u>

Total depreciation expense – business-type activities	<u>\$ 1,552,691</u>
--	---------------------

Construction commitments

The government has active construction projects as of June 30, 2006. The projects include street construction and paving, sidewalk construction, wastewater system improvements, fencing, and demolition of silo.

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Street construction and paving – Major Streets	\$	\$ 337,212
Street construction and paving – Local Streets		396,822
Sidewalk construction		37,525
Wastewater system improvements	2,983,031	5,591,848
Silo demolition		99,000
Fencing – water tank		11,107
Fencing – parks		<u>4,850</u>
Total	<u>\$ 2,983,031</u>	<u>\$6,478,364</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

The special assessment portion of the commitment for street construction is being financed by the Capital Project Fund that will be repaid by the benefiting property owners. The City's portion of these projects are being funded by the transfer of existing resources from the Municipal Streets Fund. The commitment for improvements to the wastewater and water systems is being financed by revenue bonds secured by wastewater and water revenues.

Discretely presented component units:

Capital asset activity for the Downtown Development Authority (DDA) for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 53,494	\$	\$	\$ 53,494
Capital assets, being depreciated:				
Land improvements	1,225,000			1,225,000
Less: Accumulated depreciation for:				
Land improvements	<u>(539,000)</u>	<u>(49,000)</u>	<u> </u>	<u>(588,000)</u>
DDA capital assets – net	<u>\$ 739,494</u>	<u>\$ (49,000)</u>	<u>\$ -</u>	<u>\$ 690,494</u>

Capital asset activity for the Local Development Finance Authority (LDFA) for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Utility systems	\$ 920,000	\$	\$	\$ 920,000
Less: Accumulated depreciation for:				
Utility	<u>(128,800)</u>	<u>(9,200)</u>	<u> </u>	<u>(138,000)</u>
LDFA capital assets – net	<u>\$ 791,200</u>	<u>\$ (9,200)</u>	<u>\$ -</u>	<u>\$ 782,000</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund receivables, payables, and transfers

Primary Government

Due to/from other funds:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 458,391	Major Street	\$ 11,497
		Local Street	67,901
		Fee and Public Purpose	179,265
		Community Development	993
		Endowment Trust	6
		Perpetual Care	141
		Wastewater	6,550
		Water	8,932
		Capital Projects	53,674
		Dial-A-Ride System	36,116
		Automobile Parking System	84,560
		Storm Water Utility	8,756
	<u>458,391</u>		<u>458,391</u>
Major Street	<u>231</u>	General	<u>231</u>
Local Street	<u>172,627</u>	General	372
		Major Street	144,900
		Capital Projects	27,355
	<u>172,627</u>		<u>172,627</u>
Municipal Street	<u>17,549</u>	General	<u>17,549</u>
Endowment Trust	<u>22,659</u>	General	<u>22,659</u>
Auto Parking System	<u>42,500</u>	General	<u>42,500</u>
Storm Water Utility	<u>13,400</u>	General	<u>13,400</u>
Information Technology	8,270	Community Development	1,418
		Wastewater	4,421
	<u>8,270</u>	Water	<u>2,431</u>
			<u>8,270</u>
Total primary government	<u>\$ 735,627</u>		<u>\$ 735,627</u>

Due to/from primary government and component units:

<u>Receivable Entity</u>		<u>Payable Entity</u>	
General Fund	<u>\$ 258</u>	Downtown Development Authority	<u>\$ 258</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

The balance of \$8,270 due to the Information Technology Fund from other funds noted above is for interfund services provided. All remaining balances resulted from time lag between the dates that (1) reimbursable expenditures occur, (2) revenues collected for another fund, and (3) payments between funds are made.

Interfund transfers:

Primary Government

Transfers out:	<u>Transfers In</u>					<u>Total</u>
	<u>General Fund</u>	<u>Local Streets</u>	<u>Nonmajor Government</u>	<u>Nonmajor Enterprise</u>	<u>Information Technology</u>	
General	\$	\$	\$ 11,482	\$ 148,285	\$ 5,639	\$ 165,406
Major Street		244,900				244,900
Nonmajor Governmental	86,388	415,000				501,388
Fee and Public Purpose	656,057					656,057
Nonmajor Enterprise		27,355				27,355
	<u>\$ 742,445</u>	<u>\$ 687,255</u>	<u>\$ 11,482</u>	<u>\$ 148,285</u>	<u>\$ 5,639</u>	<u>\$ 1,595,106</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (i.e. property taxes from Municipal Street Fund to Local Street Fund) (2) use unrestricted revenues collected in the General Fund to various programs accounted for in other funds in accordance with budgetary authorizations (3) move revenues to the General Fund from other funds for General Fund programs related to the overall purpose of the transferring fund in accordance with budgetary authorizations. In fiscal year 2005-06, the Fee and Public-Purpose Fund transferred \$656,057 to the General Fund for City beautification projects. Also, Major Street Fund transferred to Local Street Fund \$244,900 to support local street construction projects.

E. Long-term Debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and land purchase. General obligation bonds have been issued for both business-type activities and component unit.

General obligation bonds are direct obligations and pledge the full faith and credit of the government.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
<u>Primary Government</u>						
Business-type activities:						
Storm Water Utility	1/01/97	800,000	4.5 to 4.8%	9/01/2006	\$ 95,000 to 100,000	<u>\$ 100,000</u>
						<u>\$ 100,000</u>
<u>Component Unit</u>						
Downtown Development Authority	10/01/92	\$ 1,025,000	6.4%	3/01/2012	\$ 80,000 to 90,000	<u>\$ 490,000</u>

Primary Government

The City has purchased a parcel of land, located in Madison Township, with an installment purchase obligation from the Bank of Lenawee. The installment purchase is for \$1,200,000 with an interest rate of 3.64% per annum. Payments are made semiannually over a ten year term. The debt is a general obligation to the City.

The installment purchase obligations currently outstanding are:

	<u>Closing Date</u>	<u>Value of Contract</u>	<u>Interest</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
Governmental:						
Parks and Trees Department	5/23/03	\$ 1,200,000	3.64%	5/23/2013	\$ 105,201 to 140,394	<u>\$ 884,260</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Annual debt service requirements to maturity for general obligation bonds and bank loans are as follows:

Year Ending	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Component Unit – DDA</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
June 30						
2007	113,072	31,167	100,000	2,400	85,000	31,360
2008	117,225	27,014			85,000	25,920
2009	121,531	22,708			80,000	20,480
2010	125,995	18,244			80,000	15,360
2011	130,623	13,618			80,000	10,240
2012 – 2013	<u>275,814</u>	<u>12,662</u>	<u> </u>	<u> </u>	<u>80,000</u>	<u>5,120</u>
	<u>\$ 884,260</u>	<u>\$ 125,413</u>	<u>\$ 100,000</u>	<u>\$ 2,400</u>	<u>\$ 490,000</u>	<u>\$ 108,480</u>

Revenue bonds: The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Under two revenue bond issues – Wastewater System Revenue Bonds (September 26, 2002) not to exceed \$9,000,000; and Water Supply System Revenue Bonds, Series 2003, (September 26, 2002) not to exceed \$8,000,000, funding is provided for improvements in the wastewater and water systems.

These bond issues were purchased by the Michigan Municipal Bond Authority under the Drinking Water Revolving Fund (DWRF) and the State Revolving Fund (SRF). Under the purchase contract, the City has received the principal proceeds as loan draw-downs as the construction costs were incurred. These projects are now completed. At June 30, 2006, the Wastewater System SRF loan/bond balance outstanding was \$8,215,000 and the Water System DWRF loan/bond balance was \$5,220,000.

For fiscal year ended June 30, 2006, two revenue bond issues – Wastewater System Revenue Bond (September 22, 2005) not to exceed \$2,040,000; and Wastewater System Revenue Bond, Series 2005B (December 15, 2006) not to exceed \$7,090,000 for improvements to wastewater system were issued.

These bond issues were purchased by the Michigan Municipal Bond Authority under the State Revolving Fund (SRF) program. Under the purchase contract the City has received the principal proceeds as loan draw-downs as the construction costs were incurred. At June 30, 2006 the balances outstanding were \$1,190,872 and \$1,792,159 respectively.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Revenue bonds outstanding at June 30, 2006 are as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
					\$ 350,000 to	
Wastewater System Improvements	9/26/02	\$ 8,920,000	2.5%	10/01/2023	560,000	\$ 8,215,000
					\$ 220,000 to	
Water System Improvements	9/26/02	5,665,000	2.5%	10/01/2023	355,000	5,220,000
					\$ 85,000 To	
Wastewater Improvements	9/22/05	2,040,000	1.675%	10/1/2026	120,000	1,190,872
					305,000 to	
Wastewater System Improvements	12/15/05	7,090,000	1.675%	4/1/2027	410,000	<u>1,792,159</u>
						<u>\$ 16,418,031</u>

Revenue bond debt service requirements to maturity for bonds issued in 2002 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	600,000	328,375
2008	615,000	313,187
2009	630,000	297,625
2010	645,000	282,332
2011	660,000	265,375
2012 - 2023	<u>10,285,000</u>	<u>1,760,544</u>
	<u>\$ 13,435,000</u>	<u>\$ 3,247,438</u>

Final payment schedule information is not yet available on bonds issued in 2005. A schedule for the revenue bond debt service requirements for 2005 bonds is not shown.

Reimbursement obligation

The Local Development Finance Authority, a discretely presented component unit, is obligated to pay under a reimbursement agreement a manufacturing firm for construction costs incurred in regard to on-site improvements made at the Beecher Street Industrial Park. The amount to be paid is \$800,000 with interest at 10% per annum. Principal payments are scheduled at \$50,000 per year starting June 1, 1993 thru June 1, 2008; however, the payments of principal and interest are subject to limitation by the amount on tax increment revenue available in LDFA. Insufficient tax revenues and the resulting inability to pay the debt obligations in full does not constitute a default. Nor does the City have any direct responsibility in paying any shortfalls.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

There were insufficient funds in the LDFA to pay the full obligation under this reimbursement agreement in fiscal years 2005-06 and 2004-05. The outstanding balance on the debt obligation was \$764,100 at June 30, 2006.

Future principal and interest payments on this obligation will vary depending upon the tax increment revenues collected. For this reason, a schedule of future debt service requirements is not presented.

The Local Development Finance Authority also has a reimbursement agreement with the City of Adrian. This agreement also pays back the City for costs it incurred for on-site improvements at the Beecher Street Industrial Park. This total amount is \$120,000 with interest at 8% per annum. Principal payments are scheduled at \$7,500 per year starting June 1, 1993 thru June 1, 2008. Payments of principal and interest are subject to limitation by the amount of tax increment revenue collected. However, the City has priority of payment on its obligation from LDFA over that of the manufacturing firm.

No schedule of indebtedness or of future debt service requirements is shown since this obligation is owed to the City.

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Installment purchase obligations	\$ 1,612,360	\$	\$ 728,100	\$ 884,260	\$ 113,072
Accrued sick and vacation	<u>263,629</u>	<u>49,731</u>	<u></u>	<u>313,360</u>	<u>178,979</u>
Governmental activity - long-term liability	<u>\$ 1,875,989</u>	<u>\$ 49,731</u>	<u>\$ 728,100</u>	<u>\$ 1,197,620</u>	<u>\$ 292,051</u>
Business-type activities:					
General obligation bonds	\$ 200,000	\$	\$ 100,000	\$ 100,000	\$ 100,000
Revenue bonds	<u>14,015,000</u>	<u>2,983,031</u>	<u>580,000</u>	<u>16,418,031</u>	<u>600,000</u>
Total bonds payable	14,215,000	2,983,031	680,000	16,518,031	700,000
Accrued sick and vacation	<u>111,853</u>	<u>29,850</u>	<u></u>	<u>141,703</u>	<u>50,931</u>
Business-type activity - long-term liability	<u>\$ 14,326,853</u>	<u>\$ 3,012,881</u>	<u>\$ 680,000</u>	<u>\$ 16,659,734</u>	<u>\$ 750,931</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

CHANGES IN LONG-TERM LIABILITIES

Component units:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
DDA – general obligation bonds	\$ 575,000	\$	\$ 85,000	\$ 490,000	\$ 85,000
LDFA – reimbursement obligation	<u>764,100</u>	<u> </u>	<u> </u>	<u>764,100</u>	<u> </u>
Component units – long term liabilities	<u>\$ 1,339,100</u>	<u>\$ -</u>	<u>\$ 85,000</u>	<u>\$ 1,254,100</u>	<u>\$ 85,000</u>

F. Segment information

The City has revenue bonds related to the Wastewater and Water System Funds. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Since both the Wastewater System Fund and the Water System Fund are major enterprise funds in the financial statements, all pertinent data is disclosed in the basic financial statements presented.

G. Endowment Trust Fund

Various endowment gifts are received by the City and reported in the Endowment Trust Fund. The amount of endowment income and, in certain cases, portion of principal available for expenditures in accord with donor-restricted requirements was \$66,850 at June 30, 2006 and \$66,394 at June 30, 2005. All investment earnings have been derived from investments in certificates of deposit. There has been no net appreciation or depreciation of investment value recognized in investment earnings. The total investment earnings (interest) and certain principal amounts create expendable balance in the Endowment Trust Fund. This balance is reported in the Statement of Net Assets in the equity section as 'Endowment: Expendable Net Assets.'

H. Restricted assets in Downtown Development Authority

In 1998-99, the Adrian Central Business District Improvement Corporation (CBDIC), a local nonprofit corporation, dissolved and transferred all its assets and liabilities to the City of Adrian under the Downtown Development Authority. At June 30, 2005, a balance of \$80,670 was restricted for future downtown Adrian projects.

In fiscal year 2005-06 the CBDIC funds are being used for downtown improvement projects. There is no restricted reserve at June 30, 2006.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

I. Prior period adjustment – Downtown Development Authority

Due to an error in the computation of tax increment recapture of property taxes for the Downtown Development Authority, the Authority is obligated and in fiscal year 2005-06 has paid back the affected taxing units the sum of \$63,655 for the year 2004; and paid back affected taxing units in fiscal year 2004-05 the sum of \$154,916 which represents the years shown below.

	<u>YEARS</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Total</u>
Excess (deficiency) captured taxes	<u>\$ 56,600</u>	<u>\$ (919)</u>	<u>\$ 57,645</u>	<u>\$ 41,950</u>	<u>\$ 154,986</u>

NOTE 4. OTHER INFORMATION

A. Risk management – insurance pools

The City of Adrian is a member of the Michigan Municipal Liability and Property Pool for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. Both pools are under the Michigan Municipal Program sponsored by the Michigan Municipal League.

The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess to a minimum of \$1,000,000 for specific occurrence, and to a minimum of \$2,000,000 in aggregate in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City of Adrian and the pools to which it belongs.

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 4. OTHER INFORMATION (Continued)

C. Retirement plan

Plan description

The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multi-employer defined benefit pension plan, which provides retirement benefits to all full-time employees of the City. MERS is administered by its Board of Trustees. The actuary for the System is the Gabriel, Roeder, Smith & Company. The Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the City of Adrian, that authority rests with the City. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917.

Funding policy

Employees contribute a percent of their annual compensation, as selected by the municipality. A 3%/5% contribution program was available prior to 1985 and may be continued, but not adopted after 1984. Under this program, the employee contributes 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The City is required to contribute at a actuarially determined rate per City Division; the current rates vary from 7.69% to 41.73% of compensation per Division. The contribution requirements for the City are determined by the System's actuary.

Annual pension cost

For the year ended June 30, 2006, the City's annual pension cost of \$624,802 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. Also, employee contributions were \$304,381 for fiscal year 2005-06. The actuarial assumptions included -

- [a] 8.0% investment rate of return,
- [b] projected salary increases of 4.5% per year compounded annually,
- [c] additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable seniority/merit, and promotional salary increases,
- [d] the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefits E-1 or E-2, and
- [e] based under Benefits E-1 or E-2, inflation rate assumption is 2.5% annually

The actuarial value of MERS' assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a ten year period.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 4. OTHER INFORMATION (Continued)

Unfunded actuarial accrued liability is amortized by level percentage of payroll contributions over a period of years. The standard amortization period to fund the unfunded liability is 25 years, with this time period reestablished with each annual actuarial valuation. Overfunded actuarial accrued liability is amortized over 10 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Recognized	Net Pension Obligation
6/30/04	\$ 384,343	100%	0
6/30/05	423,912	100%	0
6/30/06	\$ 624,802	100%	0

Actuarial Accrued Liability (as of 12/31/05)

Retirees and beneficiaries currently receiving benefits	\$ 22,654,384
Terminated employees not yet receiving benefits	1,457,139
Nonvested terminated employees (pending refunds of accumulated member contributions)	51,725
Current employees --	
Accumulated employee contributions including allocated investment income	3,560,089
Employer financed	<u>13,424,362</u>

Total Actuarial Accrued Liability 41,147,699

Net Assets Available for Benefits at Actuarial Value 36,311,897

(Market Value is \$35,355,049)

Unfunded (Overfunded) Actuarial Accrued Liability \$ 4,835,802

D. Deferred compensation plan

The government offers its employees a deferred compensation plan (the plan of International City Management Association Retirement Corporation (ICMA)) created in accordance with Internal Revenue Code Section 457, amended August 20, 1996. The plan, available to all government employees, permits them to defer a portion of their salary, up to 100% of annual salary or \$15,000 whichever is less, until future years. Participation in the plan is optional.

Under the deferred compensation plan, all assets and income of the plan described in subsection (b) (6) are held in trust for the exclusive benefit of participants and their beneficiaries.

Investments are managed by the plan's trustees under one of four investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 4. OTHER INFORMATION (Continued)

The market value of the investments at June 30, 2006 was \$4,213,015.

Since the City has no significant administrative involvement with the assets of the deferred compensation plan, nor does it perform investment functions for the Plan, the deferred compensation plan is not shown in the financial statements.

E. Retirement Health Savings Plan

The City has a health savings plan for non-union and certain union employees. The plan provides funds (savings) to participating employees upon retirement for health insurance premiums and other health costs. The City made contributions to the plan (\$72,325 in fiscal year 2005-06) during employment, but no additional funding is provided after retirement. The plan had investments of \$304,432 at June 30, 2006.

CITY OF ADRIAN, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2006

CITY'S DEFINED BENEFIT PENSION PLAN (MERS)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/00	\$ 32,184,883	\$ 31,275,689	\$ (909,194)	102.9%	\$ 6,119,081	\$ (14.80%)
12/31/01	33,449,560	33,579,131	129,571	99.6%	8,201,978	2.09%
12/31/02	33,080,222	34,845,351	1,565,129	95.4%	6,360,989	24.61%
12/31/03	34,241,034	37,001,028	2,759,994	92.5%	6,847,899	40.3%
12/31/04	35,354,281	39,798,110	4,443,829	88.8%	7,219,754	61.5%
12/31/05	36,311,897	41,147,699	4,835,802	88.2%	7,282,519	66.4%

CITY
OF
ADRIAN

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2006
With Comparative Totals for June 30, 2005

SPECIAL REVENUE FUNDS

ASSETS	<u>Municipal Streets</u>	<u>Community Development</u>	<u>Economic Development</u>	<u>OMNI</u>	<u>Total</u>
Cash and cash equivalents	\$ 8,988	\$ 80,490	\$ 148,366	\$ 140,914	\$ 378,758
Investments		40,785			40,785
Loans receivable		176,759			176,759
Accounts receivable -- other	8,447		155,054		163,501
Cemetery lots					
Due from other funds	<u>17,549</u>	<u> </u>	<u> </u>	<u> </u>	<u>17,549</u>
Total assets	<u>\$ 34,984</u>	<u>\$ 298,034</u>	<u>\$ 303,420</u>	<u>\$ 140,914</u>	<u>\$ 777,352</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Vouchers payable	\$	\$ 1,108	\$ 148,738	\$ 1,071	\$ 150,917
Accrued liabilities		3,823			3,823
Due to other funds	<u> </u>	<u>2,411</u>	<u> </u>	<u> </u>	<u>2,411</u>
Total liabilities	<u> </u>	<u>7,342</u>	<u>148,738</u>	<u>1,071</u>	<u>157,151</u>
Fund balances:					
Reserved for lots inventory					
Reserved for perpetual care					
Reserved for endowments					
Reserved for loans		176,759			176,759
Reserved for encumbrances			154,682		154,682
Unreserved, undesignated	<u>34,984</u>	<u>113,933</u>	<u> </u>	<u>139,843</u>	<u>288,760</u>
Total fund balances	<u>34,984</u>	<u>290,692</u>	<u>154,682</u>	<u>139,843</u>	<u>620,201</u>
Total liabilities and fund balance	<u>\$ 34,984</u>	<u>\$ 298,034</u>	<u>\$ 303,420</u>	<u>\$ 140,914</u>	<u>\$ 777,352</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF ADRIAN, MICHIGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2006
With Comparative Totals for June 30, 2005

PERMANENT FUNDS

Endowment Trust	Perpetual Care	Total	<u>Totals</u> Nonmajor Governmental Funds	
			2006	2005
\$ 7,502	\$ 13,282	\$ 20,784	\$ 399,542	\$ 593,960
117,322	751,406	868,728	909,513	898,995
			176,759	229,261
			163,501	63,389
	7,499	7,499	7,499	7,499
<u>22,659</u>		<u>22,659</u>	<u>40,208</u>	<u>26,778</u>
<u>\$ 147,483</u>	<u>\$ 772,187</u>	<u>\$ 919,670</u>	<u>\$ 1,697,022</u>	<u>\$ 1,819,882</u>
\$	\$	\$	\$ 150,917	\$ 12,085
			3,823	6,474
<u>6</u>	<u>141</u>	<u>147</u>	<u>2,558</u>	<u>65,697</u>
<u>6</u>	<u>141</u>	<u>147</u>	<u>157,298</u>	<u>84,256</u>
	7,499	7,499	7,499	7,499
	764,547	764,547	764,547	753,085
80,627		80,627	80,627	85,649
			176,759	229,261
			154,682	45
<u>66,850</u>			<u>355,610</u>	<u>660,087</u>
<u>147,477</u>	<u>772,046</u>	<u>919,523</u>	<u>1,539,724</u>	<u>1,735,626</u>
<u>\$ 147,483</u>	<u>\$ 772,187</u>	<u>\$ 919,670</u>	<u>\$ 1,697,022</u>	<u>\$ 1,819,882</u>

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2006
With Comparative Totals for Fiscal Year Ended June 30, 2005

SPECIAL REVENUE FUNDS

	<u>Municipal Streets</u>	<u>Community Development</u>	<u>Economic Development</u>	<u>OMNI</u>	<u>Total</u>
Revenues:					
Taxes	\$ 421,928	\$	\$	\$	\$ 421,928
Intergovernmental – Federal		107,932	173,553		281,485
Investment earnings	3,336	9,936	2,814	2,868	18,954
Other		6,006	139,243	35,260	180,509
Contribution from DDA		11,482			11,482
Total revenues	<u>425,264</u>	<u>135,356</u>	<u>315,610</u>	<u>38,128</u>	<u>914,358</u>
Expenditures:					
Community/Economic Development		330,757	265,036		595,793
Public safety				61,457	61,457
Other services					
Total expenditures	<u>-</u>	<u>330,757</u>	<u>265,036</u>	<u>61,457</u>	<u>657,250</u>
Excess (deficiency) of revenues over (under) expenditures	<u>425,264</u>	<u>(195,401)</u>	<u>50,574</u>	<u>(23,329)</u>	<u>257,108</u>
Other financing sources (uses):					
Transfers in		11,482			11,482
Transfers out	<u>(415,000)</u>	<u>(31,388)</u>	<u>(25,000)</u>		<u>(471,388)</u>
Total other financing sources (uses)	<u>(415,000)</u>	<u>(19,906)</u>	<u>(25,000)</u>	<u>-</u>	<u>(459,906)</u>
Net changes in fund balances	10,264	(215,307)	25,574	(23,329)	(202,798)
Fund balances – beginning of year	<u>24,720</u>	<u>505,999</u>	<u>129,108</u>	<u>163,172</u>	<u>822,999</u>
Fund balances – end of year	<u>\$ 34,984</u>	<u>\$ 290,692</u>	<u>\$ 154,682</u>	<u>\$ 139,843</u>	<u>\$ 620,201</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2006
With Comparative Totals for Fiscal Year ended June 30, 2005

<u>PERMANENT FUNDS</u>			<u>Totals</u> <u>Nonmajor</u> <u>Governmental Funds</u>	
<u>Endowment</u> <u>Trust</u>	<u>Perpetual</u> <u>Care</u>	<u>Total</u>	<u>2006</u>	<u>2005</u>
\$	\$	\$	\$ 421,928	\$ 404,941
			281,485	1,200
434	13,989	14,423	33,377	37,238
	27,473	27,473	207,982	223,784
			<u>11,482</u>	<u>15,446</u>
<u>434</u>	<u>41,462</u>	<u>41,896</u>	<u>956,254</u>	<u>682,609</u>
			595,793	276,273
			61,457	65,246
<u>5,000</u>		<u>5,000</u>	<u>5,000</u>	<u>49,891</u>
<u>5,000</u>	-	<u>5,000</u>	<u>662,250</u>	<u>391,410</u>
<u>(4,566)</u>	<u>41,462</u>	<u>36,896</u>	<u>294,004</u>	<u>291,199</u>
			11,482	4,106
	<u>(30,000)</u>	<u>(30,000)</u>	<u>(501,388)</u>	<u>(495,519)</u>
	<u>(30,000)</u>	<u>(30,000)</u>	<u>(489,906)</u>	<u>(491,413)</u>
(4,566)	11,462	6,896	(195,902)	(200,214)
<u>152,043</u>	<u>760,584</u>	<u>912,627</u>	<u>1,735,626</u>	<u>1,935,840</u>
<u>\$ 147,477</u>	<u>\$ 772,046</u>	<u>\$ 919,523</u>	<u>\$ 1,539,724</u>	<u>\$ 1,735,626</u>

CITY OF ADRIAN, MICHIGAN

MUNICIPAL STREET SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Final Budget -</u> <u>Positive (Negative)</u>
Revenues:				
Property tax	\$ 417,343	\$ 417,343	\$ 421,928	\$ 4,585
Investment earnings	<u>5,000</u>	<u>5,000</u>	<u>3,336</u>	<u>(1,664)</u>
Total revenues	422,343	422,343	425,264	2,921
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	422,343	422,343	425,264	2,921
Other financing uses:				
Transfers out	<u>(422,343)</u>	<u>(422,343)</u>	<u>(415,000)</u>	<u>7,343</u>
Net change in fund balance	-	-	10,264	10,264
Fund balance - beginning of year	<u>24,720</u>	<u>24,720</u>	<u>24,720</u>	<u>-</u>
Fund balance - end of year	<u>\$ 24,720</u>	<u>\$ 24,720</u>	<u>\$ 34,984</u>	<u>\$ 10,264</u>

CITY OF ADRIAN, MICHIGAN

COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Intergovernmental	\$ 250,000	\$ 250,000	\$ 107,932	\$ (142,068)
Investment earnings	10,000	10,000	9,936	(64)
Other	3,100	23,100	2,126	(20,974)
Contribution from DDA - TIF	11,482	11,482	11,482	
Sale of Property	<u>10,000</u>	<u>67,500</u>	<u>3,880</u>	<u>(63,620)</u>
Total revenues	284,582	362,082	135,356	(226,726)
Expenditures:				
Other services:				
Community development	<u>264,676</u>	<u>342,176</u>	<u>330,757</u>	<u>11,419</u>
Excess (deficiency) of revenues over (under) expenditures	<u>19,906</u>	<u>19,906</u>	<u>(195,401)</u>	<u>(215,307)</u>
Other financing sources (uses):				
Transfers in	11,482	11,482	11,482	
Transfers out	<u>(31,388)</u>	<u>(31,388)</u>	<u>(31,388)</u>	
Total other financing sources (uses)	<u>(19,906)</u>	<u>(19,906)</u>	<u>(19,906)</u>	<u>-</u>
Net change in fund balance			(215,307)	(215,307)
Fund balance - beginning of year	<u>505,999</u>	<u>505,999</u>	<u>505,999</u>	<u>-</u>
Fund balance - end of year	<u>\$ 505,999</u>	<u>\$ 505,999</u>	<u>\$ 290,692</u>	<u>\$ (215,307)</u>

CITY OF ADRIAN, MICHIGAN

ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 200,000	\$ 429,000	\$ 173,553	\$ (255,447)
Investment earnings	200	200	2,814	2,614
Donations	125,000	125,000	138,293	13,293
Other	<u> </u>	<u> </u>	<u>950</u>	<u>950</u>
Total revenues	325,200	554,200	315,610	(238,590)
Expenditures:				
Other services:				
Economic development	<u>320,200</u>	<u>549,200</u>	<u>265,036</u>	<u>284,164</u>
Excess of revenues over expenditures	<u>5,000</u>	<u>5,000</u>	<u>50,574</u>	<u>45,574</u>
Other financing sources (uses):				
Transfers out	<u>(5,000)</u>	<u>(5,000)</u>	<u>(25,000)</u>	<u>(20,000)</u>
Total other financing sources (uses)	<u>(5,000)</u>	<u>(5,000)</u>	<u>(25,000)</u>	<u>(20,000)</u>
Net change in fund balance			25,574	25,574
Fund balance - beginning of year	<u>129,108</u>	<u>129,108</u>	<u>129,108</u>	<u>-</u>
Fund balance - end of year	<u>\$ 129,108</u>	<u>\$ 129,108</u>	<u>\$ 154,682</u>	<u>\$ 25,574</u>

CITY OF ADRIAN, MICHIGAN

OMNI SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
OMNI forfeitures	\$ 50,000	\$ 65,000	\$ 35,165	\$ (29,835)
Investment earnings	300	300	2,868	2,568
Other	<u>5,000</u>	<u>5,000</u>	<u>95</u>	<u>(4,905)</u>
Total revenues	55,300	70,300	38,128	(32,172)
Expenditures:				
Public safety, OMNI	<u>55,300</u>	<u>70,300</u>	<u>61,457</u>	<u>8,843</u>
Excess of revenues over expenditures	-	-	(23,329)	(23,329)
Fund balance - beginning of year	<u>163,172</u>	<u>163,172</u>	<u>163,172</u>	<u>-</u>
Fund balance - end of year	<u>\$ 163,172</u>	<u>\$ 163,172</u>	<u>\$ 139,843</u>	<u>\$ (23,329)</u>

CITY
OF
ADRIAN

CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF NET ASSETS

NONMAJOR ENTERPRISE FUNDS

June 30, 2006
With Comparative Totals for June 30, 2005

ASSETS	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds 2006	2005
Current assets:						
Cash and cash equivalents	\$ 275,170	\$	\$ 131,893	\$ 346	\$ 407,409	\$ 316,151
Receivables:						
Special assessments	409,804		42,500	13,400	409,804	407,655
Due from other funds					55,900	33,247
Due from other governments		45,158			45,158	71,838
Accounts		320			320	153
Restricted assets – cash and investments:						
Bond interest and redemption						
account – cash				2,000	2,000	5,973
Total current assets	<u>684,974</u>	<u>45,478</u>	<u>174,393</u>	<u>15,746</u>	<u>920,591</u>	<u>835,017</u>
Noncurrent assets:						
Capital assets:						
Land			638,500		638,500	638,500
Utility systems				2,380,243	2,380,243	2,380,243
Land improvements			720,573	861,435	1,582,008	1,582,008
Equipment		561,488	156,033		717,521	664,021
Less: Accumulated depreciation		<u>(308,757)</u>	<u>(500,123)</u>	<u>(1,218,314)</u>	<u>(2,027,194)</u>	<u>(1,973,002)</u>
Net capital assets	-	<u>252,731</u>	<u>1,014,983</u>	<u>2,023,364</u>	<u>3,291,078</u>	<u>3,291,770</u>
Total noncurrent assets	-	<u>252,731</u>	<u>1,014,983</u>	<u>2,023,364</u>	<u>3,291,078</u>	<u>3,291,770</u>
Total assets	<u>\$ 684,974</u>	<u>\$ 298,209</u>	<u>\$ 1,189,376</u>	<u>\$ 2,039,110</u>	<u>\$ 4,211,669</u>	<u>\$ 4,126,787</u>

	Capital Projects <u>Revolving Fund</u>	Dial-A-Ride <u>System</u>	Automobile <u>Parking System</u>	Storm Water <u>Utility</u>	Totals Nonmajor Enterprise Funds 2006 2005
LIABILITIES					
Current liabilities:					
Vouchers payable	\$	\$ 1,179	\$ 979	\$ 440	\$ 2,598 \$ 10,998
Accrued liabilities			549	4,421	4,970 1,386
Due to other funds	81,029	36,116	84,560	8,756	210,461 117,650
Due to other governments		8,183			8,183 6,349
General obligation bonds payable -- current				<u>100,000</u>	<u>100,000</u> <u>100,000</u>
	81,029	45,478	86,088	113,617	326,212 236,383
Current liabilities payable from restricted assets:					
Accrued interest				<u>2,000</u>	<u>2,000</u> <u>5,973</u>
Total current liabilities	<u>81,029</u>	<u>45,478</u>	<u>86,088</u>	<u>115,617</u>	<u>328,212</u> <u>242,356</u>
Noncurrent liabilities:					
General obligation bonds					<u>100,000</u>
Total noncurrent liabilities					<u>100,000</u>
Total liabilities	<u>81,029</u>	<u>45,478</u>	<u>86,088</u>	<u>115,617</u>	<u>328,212</u> <u>342,356</u>
NET ASSETS					
Invested in capital assets net of related debt		252,731	1,014,983	1,923,364	3,191,078 3,091,770
Restricted for debt service					
Unrestricted	<u>603,945</u>		<u>88,305</u>	<u>129</u>	<u>692,379</u> <u>692,661</u>
Total net assets	<u>\$ 603,945</u>	<u>\$ 252,731</u>	<u>\$ 1,103,288</u>	<u>\$ 1,923,493</u>	<u>\$ 3,883,457</u> <u>\$ 3,784,431</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

NONMAJOR ENTERPRISE FUNDS

For Fiscal Year Ended June 30, 2006
With Comparative Totals for Fiscal Year Ended June 30, 2005

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds
					2006 2005
Operating revenues:					
Charges for services	\$	\$ 87,043	\$ 46,841	\$ 281,679	\$ 415,543 \$ 521,309
Miscellaneous		<u>547</u>			<u>547</u> <u>250</u>
Total operating revenues	-	<u>87,590</u>	<u>46,841</u>	<u>281,679</u>	<u>416,110</u> <u>521,559</u>
Operating expenses:					
Cost of services		399,914	101,137	183,181	684,232 855,014
Depreciation		<u>55,331</u>	<u>15,262</u>	<u>41,031</u>	<u>111,624</u> <u>111,124</u>
Total operating expenses	-	<u>455,245</u>	<u>116,399</u>	<u>224,212</u>	<u>795,856</u> <u>966,138</u>
Operating income (loss)	-	<u>(367,655)</u>	<u>(69,558)</u>	<u>57,467</u>	<u>(379,746)</u> <u>(444,579)</u>
Nonoperating revenues (expenses):					
Intergovernmental – State		170,310			170,310 170,104
Intergovernmental – Federal		57,729			57,729 52,354
Interest revenue	22,338			9	22,347 29,088
Interest expense				<u>(3,476)</u>	<u>(3,476)</u> <u>(21,782)</u>
Total nonoperating revenues (expenses)	<u>22,338</u>	<u>228,039</u>		<u>(3,467)</u>	<u>246,910</u> <u>229,764</u>

	Capital Projects <u>Revolving Fund</u>	Dial-A-Ride <u>System</u>	Automobile <u>Parking System</u>	Storm Water <u>Utility</u>	Totals Nonmajor Enterprise Funds <u>2006</u> <u>2005</u>
Income (loss) before contribution and transfers	\$ 22,338	\$ (139,616)	\$ (69,558)	\$ 54,000	\$ (132,836) \$ (214,815)
Capital contribution -- State		110,932			110,932
Transfers in		84,225	59,000	5,000	148,285
Transfers out	<u>(27,355)</u>				<u>(27,355)</u>
Change in net assets	(5,017)	55,601	(10,558)	59,000	99,026
Total net assets -- beginning of year	<u>608,962</u>	<u>197,130</u>	<u>1,113,846</u>	<u>1,864,493</u>	<u>3,784,431</u>
Total net assets -- end of year	<u>\$ 603,945</u>	<u>\$ 252,731</u>	<u>\$ 1,103,288</u>	<u>\$ 1,923,493</u>	<u>\$ 3,883,457</u>
					<u>\$ 3,784,431</u>

CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR ENTERPRISE FUNDS

**For Fiscal Year Ended June 30, 2006
With Comparative Totals for Fiscal Year Ended June 30, 2005**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>Capital Projects Revolving Fund</u>	<u>Dial-A-Ride System</u>	<u>Automobile Parking System</u>	<u>Storm Water Utility</u>	<u>Totals Nonmajor Enterprise Funds</u>
					<u>2006</u> <u>2005</u>
Cash flows from operating activities:					
Cash received from customers	\$	\$ 87,270	\$ 37,741	\$ 268,279	\$ 393,290 \$ 521,370
Cash paid to suppliers		(196,040)	(60,840)	(126,978)	(383,858) (518,193)
Cash paid to employees		(205,197)	(42,566)	(50,093)	(297,856) (342,944)
Net cash provided by (used in) operating activities	-	(313,967)	(65,665)	91,208	(288,424) (339,767)
Cash flows from noncapital financing activities:					
Cash received – Federal		68,110			68,110 45,639
Cash received – State		186,609			186,609 160,561
Transfers from General Fund		59,248	143,560	5,000	207,808 291,508
Net cash provided by noncapital financing activities	-	313,967	143,560	5,000	462,527 497,708
Cash flows from capital and related financing activities:					
Principal paid on general obligation bonds				(100,000)	(100,000) (145,000)
Interest paid and agent fees on general obligation bonds				(7,449)	(7,449) (22,931)
Special assessments	82,683				82,683 99,187
Special assessment revenue provided to other funds	(84,398)				(84,398) (25,240)
Net cash provided by (used in) capital and related financing activities	(1,715)	-		(107,449)	(109,164) (93,984)

	Totals			
	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility
				Enterprise Funds 2006
				2005
Cash flows from Investing activities:				
Interest income	\$ 22,338	\$	\$	\$ 22,347 \$ 29,088
Net cash provided by investing activities	22,338	-		22,347 29,088
Net increase (decrease) in cash and cash equivalents	20,623		77,895	(11,232) 93,045
Cash and cash equivalents at beginning of year	254,547	-	53,999	13,578 229,079
Cash and cash equivalents at end of year	\$ 275,170	\$ -	\$ 131,894	\$ 2,346 \$ 322,124

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating income (loss)	\$ -	\$ (367,655)	\$ (69,558)	\$ 57,467	\$ (379,746)	\$ (444,579)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation						
Change In Assets and Liabilities:						
(Increase) decrease in due from other funds		55,331	15,262	41,031	111,624	111,124
(Increase) decrease in accounts receivable		(320)	(9,253)	(13,400)	(22,653)	(36)
Increase (decrease) in vouchers payable		(3,157)	153	(3,394)	(167)	(153)
Increase (decrease) in due to County		1,834	(1,848)		(8,399)	3,436
Increase (decrease) in accrued payroll and liabilities			(421)		1,834	922
Increase (decrease) in due to other funds				4,005	3,584	(1,140)
				5,499	5,499	(9,341)
Total adjustments	-	53,688	3,893	33,741	91,322	104,812
Net cash provided by (used in) operating activities	\$ -	\$ (313,967)	\$ (65,665)	\$ 91,208	\$ (288,424)	\$ (339,767)

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

<u>ASSETS</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current assets:		
Cash	\$ 275,170	\$ 254,547
Receivables:		
Special assessments	<u>409,804</u>	<u>407,655</u>
Total assets	<u>\$ 684,974</u>	<u>\$ 662,202</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Due to General Fund	\$ 53,674	\$ 53,240
Due to Local Street Fund	<u>27,355</u>	<u> </u>
Total liabilities	<u>81,029</u>	<u>53,240</u>
Net assets – unrestricted	<u>603,945</u>	<u>608,962</u>
Total net assets	<u>\$ 603,945</u>	<u>\$ 608,962</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

CAPITAL PROJECTS REVOLVING ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS**

For Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating revenues	\$ _____	\$ _____ -
Operating expenses	_____	_____ -
Operating income		
Nonoperating revenues (expenses):		
Interest revenue	22,338	29,028
Transfers out	<u>(27,355)</u>	<u>_____</u>
Change in net assets	(5,017)	29,028
Total net assets – beginning of year	<u>608,962</u>	<u>579,934</u>
Total net assets – end of year	<u>\$ 603,945</u>	<u>\$ 608,962</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2006 and 2005
INCREASE IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	\$ -	\$ -
Cash flows from noncapital financing activities:		
Net cash provided by (used in) noncapital financing activities	-	-
Cash flows from capital and related financing activities:		
Cash received on special assessment	82,683	99,187
Special assessment revenue provided to other funds	<u>(84,398)</u>	<u>(25,240)</u>
Net cash provided by capital and related financing activities	(1,715)	73,947
Cash flows from investing activities:		
Interest	<u>22,338</u>	<u>29,028</u>
Net increase in cash and cash equivalents	20,623	102,975
Cash and cash equivalents at beginning of year	<u>254,547</u>	<u>151,572</u>
Cash and cash equivalents at end of year	<u>\$ 275,170</u>	<u>\$ 254,547</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating income	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	-	-
Net cash provided by (used in) operating activities	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

<u>ASSETS</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current assets:		
Due from other governments:		
Federal	\$ 12,663	\$ 23,044
State	32,495	48,794
Accounts Receivable	<u>320</u>	<u></u>
Total current assets	<u>45,478</u>	<u>71,838</u>
Noncurrent assets:		
Capital assets:		
Equipment	561,488	507,988
Accumulated depreciation	<u>(308,757)</u>	<u>(310,858)</u>
Net capital assets	<u>252,731</u>	<u>197,130</u>
Total noncurrent assets	<u>252,731</u>	<u>197,130</u>
Total assets	<u>\$ 298,209</u>	<u>\$ 268,968</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 1,179	\$ 4,336
Due to other governments:		
County	8,183	6,349
Due to other funds – General	<u>36,116</u>	<u>61,153</u>
Total current liabilities	<u>45,478</u>	<u>71,838</u>
Net assets:		
Invested in net assets, net of related debt	<u>252,731</u>	<u>197,130</u>
Total net assets	<u>\$ 252,731</u>	<u>\$ 197,130</u>

CITY OF ADRIAN, MICHIGAN

DIAL-A-RIDE SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating revenues:		
Charges for services	\$ 87,043	\$ 77,257
Other	<u>547</u>	<u>250</u>
Total operating revenues	<u>87,590</u>	<u>77,507</u>
Operating expenses:		
Cost of services:		
Salaries and wages	205,197	223,465
Fringe benefits	62,651	90,651
Contracted services	18,663	25,252
Supplies and materials	48,245	42,731
Telephone	2,705	2,697
Insurance	18,310	7,824
Advertising	852	104
Maintenance	37,346	37,999
Rent	3,945	3,937
Administrative and accounting	2,000	2,000
Depreciation	<u>55,331</u>	<u>54,000</u>
Total operating expenses	<u>455,245</u>	<u>490,660</u>
Operating loss	<u>(367,655)</u>	<u>(413,153)</u>
Nonoperating revenues:		
Intergovernmental - State	170,310	170,104
Intergovernmental - Federal	<u>57,729</u>	<u>52,354</u>
Total nonoperating revenues	<u>228,039</u>	<u>222,458</u>
Loss before contributions and transfers	(139,616)	(190,695)
Transfers in	84,285	136,695
Capital contribution - State	<u>110,932</u>	<u></u>
Change in net assets	55,601	(54,000)
Total net assets - beginning of year	<u>197,130</u>	<u>251,130</u>
Total net assets - end of year	<u>\$ 252,731</u>	<u>\$ 197,130</u>

CITY OF ADRIAN, MICHIGAN

DIAL-A-RIDE SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2006 and 2005

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 87,270	\$ 77,507
Cash paid to suppliers	(196,040)	(212,199)
Cash paid to employees	<u>(205,197)</u>	<u>(223,465)</u>
Net cash used in operating activities	<u>(313,967)</u>	<u>(358,157)</u>
Cash flows from noncapital financing activities:		
Grant received – Federal	68,110	45,639
Grant received – State	186,609	160,561
Transfer from General Fund	<u>59,248</u>	<u>151,957</u>
Net cash provided by noncapital financing activities	<u>313,967</u>	<u>358,157</u>
Net increase (decrease) in cash and cash equivalents		-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES**

Operating loss	<u>(367,655)</u>	<u>\$ (413,153)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	55,331	54,000
Change in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(320)	
Increase (decrease) in vouchers payable	(3,157)	74
Increase (decrease) in due to County	<u>1,834</u>	<u>922</u>
Total adjustments	<u>53,688</u>	<u>54,996</u>
Net cash used in operating activities	<u>\$ (313,967)</u>	<u>\$ (358,157)</u>

CITY OF ADRIAN, MICHIGAN
AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

<u>ASSETS</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current assets:		
Cash and cash equivalents	\$ 131,893	\$ 53,999
Due from General Fund	42,500	33,247
Accounts receivable		153
Total current assets	<u>174,393</u>	<u>87,399</u>
Capital assets:		
Land	638,500	638,500
Land improvements	720,573	720,573
Equipment	156,033	156,033
Less: Accumulated depreciation	<u>(500,123)</u>	<u>(484,861)</u>
Net capital assets	<u>1,014,983</u>	<u>1,030,245</u>
Total noncurrent assets	<u>1,014,983</u>	<u>1,030,245</u>
Total assets	<u>\$ 1,189,376</u>	<u>\$ 1,117,644</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 979	\$ 2,828
Accrued payroll	549	970
Due to General Fund	<u>84,560</u>	
Total current liabilities	86,088	3,798
Total liabilities	<u>86,088</u>	<u>3,798</u>
Net assets:		
Invested in capital assets, net of related debt	1,014,983	1,030,245
Unrestricted	<u>88,305</u>	<u>83,601</u>
Total net assets	<u>\$ 1,103,288</u>	<u>\$ 1,113,846</u>

CITY OF ADRIAN, MICHIGAN

AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating revenues:		
Charges for services	\$ 46,841	\$ 80,239
Total operating revenues	<u>46,841</u>	<u>80,239</u>
Operating expenses:		
Cost of services:		
Salaries and wages	42,145	52,996
Fringe benefits	17,778	18,099
Overhead expense	196	6,099
Supplies	7,499	11,114
Contracted services	5,148	10,087
Insurance	1,422	298
Electricity	10,680	10,512
Rent	3,269	4,586
Administration	13,000	13,000
Depreciation	<u>15,262</u>	<u>16,093</u>
Total operating expenses	<u>116,399</u>	<u>142,884</u>
Operating income	<u>(69,558)</u>	<u>(62,645)</u>
Nonoperating revenues (expenses):		
Interest income		32
Interest expense		(9,272)
Bond agent expense		<u>(525)</u>
Total nonoperating revenues (expenses)		<u>(9,765)</u>
Loss before transfers	(69,558)	(72,410)
Transfer in	<u>59,000</u>	<u>123,151</u>
Change in net assets	(10,558)	50,741
Total net assets – beginning of year	<u>1,113,846</u>	<u>1,063,105</u>
Total net assets – end of year	<u>\$ 1,103,288</u>	<u>\$ 1,113,846</u>

CITY OF ADRIAN, MICHIGAN
AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2006 and 2005
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 37,741	\$ 67,010
Cash paid to suppliers	(60,840)	(71,533)
Cash paid to employees	<u>(42,566)</u>	<u>(52,395)</u>
Net cash used in operating activities	<u>(65,665)</u>	<u>(56,918)</u>
Cash flows from noncapital		
financing activities:		
Transfer from General Fund	<u>143,560</u>	<u>123,151</u>
Cash flows from capital and related		
financing activities:		
Interest paid and agent fees on		
general obligation bonds		(10,946)
Principal paid on general obligation bonds	<u> </u>	<u>(50,000)</u>
Net cash used in capital and related		
financing activities	<u> </u>	<u>(60,946)</u>
Cash flows from investing activities:		
Interest	<u> </u>	<u>32</u>
Net increase (decrease) in cash and cash equivalents	77,895	5,319
Cash and cash equivalents at beginning of year	<u>53,999</u>	<u>48,680</u>
Cash and cash equivalents at end of year	<u>\$ 131,894</u>	<u>\$ 53,999</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
USED IN OPERATING ACTIVITIES**

Operating income (loss)	\$ <u>(69,558)</u>	\$ <u>(62,645)</u>
Adjustments to reconcile operating income		
(loss) to net cash used in operating activities:		
Depreciation	15,262	16,093
Change in Assets and Liabilities:		
(Increase) decrease in due from other funds	(9,253)	(13,076)
(Increase) decrease in accounts receivable	153	(153)
Increase (decrease) vouchers payable	(1,848)	2,262
Increase (decrease) in accrued payroll	<u>(421)</u>	<u>601</u>
Total adjustments	<u>3,893</u>	<u>5,727</u>
Net cash used in operating activities	<u>\$ (65,665)</u>	<u>\$ (56,918)</u>

CITY OF ADRIAN, MICHIGAN
STORM WATER UTILITY ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

<u>ASSETS</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current assets:		
Cash and cash equivalents	\$ 346	\$ 7,605
Due from other funds – General	13,400	
Restricted assets:		
Bond interest – cash	<u>2,000</u>	<u>5,973</u>
Total current assets	<u>15,746</u>	<u>13,578</u>
Noncurrent assets:		
Capital assets:		
Utility systems	2,380,243	2,380,243
Improvements other than buildings	861,435	861,435
Less: Accumulated depreciation	<u>(1,218,314)</u>	<u>(1,177,283)</u>
Total capital assets	<u>2,023,364</u>	<u>2,064,395</u>
Total noncurrent assets	<u>2,023,364</u>	<u>2,064,395</u>
Total assets	<u>\$ 2,039,110</u>	<u>\$ 2,077,973</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 440	\$ 3,834
Accrued payroll	4,421	416
Due to other funds – General	8,756	3,257
General obligation bonds payable – current	<u>100,000</u>	<u>100,000</u>
Total current liabilities	113,617	107,507
Current liability - payable from restricted asset:		
Accrued interest	2,000	5,973
Noncurrent liabilities:		
General obligation bonds payable	<u> </u>	<u>100,000</u>
Total liabilities	<u>115,617</u>	<u>213,480</u>
Net assets:		
Invested in capital asset - net of related debt	1,923,364	1,864,395
Unrestricted	<u>129</u>	<u>98</u>
Total net assets	<u>\$ 1,923,493</u>	<u>\$ 1,864,493</u>

CITY OF ADRIAN, MICHIGAN

STORM WATER UTILITY ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
IN FUND NET ASSETS**

For Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating revenues:		
Charges for services	\$ 281,679	\$ 363,813
Operating expenses:		
Cost of services:		
Salaries and wages	54,098	65,342
Overhead expense	19,651	20,402
Supplies	27,510	38,191
Contracted services	54,007	133,854
Rent	14,213	11,405
Administration	13,702	22,369
Depreciation	<u>41,031</u>	<u>41,031</u>
Total operating expenses	<u>224,212</u>	<u>332,594</u>
Operating income	<u>57,467</u>	<u>31,219</u>
Nonoperating revenues (expenses):		
Interest revenue	9	28
Interest expense	(3,176)	(11,685)
Bond issuance cost/pay agent fees	<u>(300)</u>	<u>(300)</u>
Total nonoperating revenues (expenses)	<u>(3,467)</u>	<u>(11,957)</u>
Income before transfers	54,000	19,262
Transfers in	<u>5,000</u>	<u>16,400</u>
Change in net assets	59,000	35,662
Net assets – beginning of year	<u>1,864,493</u>	<u>1,828,831</u>
Net assets – end of year	<u><u>\$ 1,923,493</u></u>	<u><u>\$ 1,864,493</u></u>

CITY OF ADRIAN, MICHIGAN

STORM WATER UTILITY ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2006 and 2005

DECREASE IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 268,279	\$ 376,853
Cash paid to suppliers	(126,978)	(234,461)
Cash paid to employees	<u>(50,093)</u>	<u>(67,084)</u>
Net cash provided by operating activities	<u>91,208</u>	<u>75,308</u>
Cash from noncapital financing activities:		
Transfers from General Fund	<u>5,000</u>	<u>16,400</u>
Cash flows from financing activities:		
Interest paid and agent fees on general obligation bonds	(7,449)	(11,985)
Bond principal payment	<u>(100,000)</u>	<u>(95,000)</u>
Net cash used in capital and related financing activities	<u>(107,449)</u>	<u>(106,985)</u>
Cash flows from investing activities:		
Interest	<u>9</u>	<u>28</u>
Net decrease in cash and cash equivalents	(11,232)	(15,249)
Cash and cash equivalents at beginning of year	<u>13,578</u>	<u>28,827</u>
Cash and cash equivalents at end of year	<u>\$ 2,346</u>	<u>\$ 13,578</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 57,467	\$ 31,219
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	41,031	41,031
Changes in Assets and Liabilities:		
(Increase) decrease in due from other funds	(13,400)	13,040
Increase (decrease) in vouchers payable	(3,394)	1,100
Increase (decrease) in accrued liabilities	4,005	(1,741)
Increase (decrease) in due to other funds	<u>5,499</u>	<u>(9,341)</u>
Total adjustments	<u>33,741</u>	<u>44,089</u>
Net cash provided by operating activities	<u>\$ 91,208</u>	<u>\$ 75,308</u>

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

<u>ASSETS</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current assets:		
Cash and cash equivalents	\$ 417,114	\$ 491,199
Investments	121,567	1,205,571
Receivables:		
Accounts	340,859	346,513
Deferred assessments	68,501	68,501
Due from other funds		
Prepaid expense	3,470	4,450
Restricted assets available for current liabilities:		
Bond interest and redemption account – investment	<u>328,450</u>	<u>408,562</u>
Total current assets	<u>1,279,961</u>	<u>2,524,796</u>
Noncurrent assets:		
Restricted investments:		
Replacement account – investment	500,000	500,000
Bond interest and redemption account – investment	<u>223,000</u>	
Total noncurrent restricted assets	<u>723,000</u>	<u>500,000</u>
Capital assets:		
Land	163,164	163,164
Sewer system	37,286,648	36,684,699
Less: Accumulated depreciation	(15,037,853)	(14,059,513)
Construction in progress	<u>3,571,146</u>	<u>539,423</u>
Net capital assets	<u>25,983,105</u>	<u>23,327,773</u>
Total noncurrent assets	<u>26,706,105</u>	<u>23,827,773</u>
Total assets	<u>\$ 27,986,066</u>	<u>\$ 26,352,569</u>

CITY OF ADRIAN, MICHIGAN
WASTEWATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

<u>LIABILITIES</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current liabilities:		
Vouchers payable	\$ 475,818	\$ 151,993
Accrued payroll	9,709	28,237
Due to other funds:		
General	6,550	23,662
Water		295,313
Information Technology	4,421	26,803
DWRF Bonds payable – current	<u>365,000</u>	<u>355,000</u>
Total current liabilities	<u>861,498</u>	<u>881,008</u>
Current liabilities – payable from restricted assets:		
Accrued interest	<u>51,344</u>	<u>53,562</u>
Noncurrent liabilities:		
Accrued sick and vacation	55,098	31,016
DWRF Bonds payable	7,850,000	8,215,000
SRF Bonds payable	<u>2,983,031</u>	
Total noncurrent liabilities	<u>10,888,129</u>	<u>8,246,016</u>
Total liabilities	<u>11,800,971</u>	<u>9,180,586</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	14,785,074	14,757,773
Restricted for debt service	500,106	355,000
Restricted for replacement	500,000	500,000
Unrestricted	<u>399,915</u>	<u>1,559,210</u>
Total net assets	<u>\$ 16,185,095</u>	<u>\$ 17,171,983</u>

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating revenues:		
Charges for services	\$ 2,686,315	\$ 2,604,027
Miscellaneous revenue	<u>25,447</u>	<u>69,063</u>
Total operating revenues	<u>2,711,762</u>	<u>2,673,090</u>
Operating expenses:		
Cost of services:		
Wastewater treatment plant operation	1,475,562	1,396,609
Sanitary sewer expenses	215,518	184,346
Broad Street station expenses	31,237	27,574
Lift station expenses	33,642	27,905
Retention basis expenses	8,017	8,371
Administrative and overhead	781,271	626,906
Depreciation	<u>978,340</u>	<u>979,359</u>
Total operating expenses	<u>3,523,587</u>	<u>3,251,070</u>
Operating loss	<u>(811,825)</u>	<u>(577,980)</u>
Nonoperating revenues (expenses):		
Interest revenue	32,531	86,055
Interest expense	<u>(207,594)</u>	<u>(214,310)</u>
Total nonoperating revenues (expenses)	<u>(175,063)</u>	<u>(128,255)</u>
Change in net assets	(986,888)	(706,235)
Total net assets – beginning of year	<u>17,171,983</u>	<u>17,878,218</u>
Total net assets – end of year	<u>\$ 16,185,095</u>	<u>\$ 17,171,983</u>

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2006 and 2005

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,717,416	\$ 2,584,793
Cash paid to suppliers	(1,753,081)	(1,136,519)
Cash paid to employees	<u>(796,614)</u>	<u>(702,811)</u>
Net cash provided by (used in) operating activities	<u>167,721</u>	<u>745,463</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,633,672)	(1,508,766)
Interest expense	(209,812)	(214,370)
Bond proceeds – SRF Bonds	2,983,031	
Principal paid on DWRf Bonds	<u>(355,000)</u>	<u>(350,000)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,215,453)</u>	<u>(2,073,136)</u>
Cash flows from investing activities:		
Interest	32,531	86,055
Investments purchased		(1,000,000)
Investment proceeds	<u>941,116</u>	<u>2,318,037</u>
Net cash provided by (used in) investing activities	<u>973,647</u>	<u>1,404,092</u>
Net increase (decrease) in cash and cash equivalents	(74,085)	76,419
Cash and cash equivalents at beginning of year	<u>491,199</u>	<u>414,780</u>
Cash and cash equivalents at end of year	<u>\$ 417,114</u>	<u>\$ 491,199</u>

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2006 and 2005

RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating loss	\$ <u>(811,825)</u>	\$ <u>(577,980)</u>
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	978,340	979,359
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	5,654	(271,050)
(Increase) decrease in due from other funds		182,753
(Increase) decrease in prepaids	980	819
Increase (decrease) in vouchers payable	323,825	113,684
Increase (decrease) in accrued payroll	(18,528)	26,714
Increase (decrease) in accrued sick and vacation	24,082	(13,903)
Increase (decrease) in due to other funds	<u>(334,807)</u>	<u>305,067</u>
Total adjustments	<u>979,546</u>	<u>1,323,443</u>
Net cash provided by (used in) in operating activities	\$ <u>167,721</u>	\$ <u>745,463</u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

<u>ASSETS</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current assets:		
Cash and cash equivalents	\$ 121,818	\$ 98,982
Receivables:		
Accounts	342,831	375,122
Deferred assessments	22,629	22,629
Due from other funds		295,313
Inventories	143,030	120,650
Prepaid expense	<u>6,565</u>	<u>8,082</u>
	636,873	920,778
Restricted assets available for current liabilities:		
Customer deposits – cash	15,580	15,030
Bond interest and redemption account – investment		177,530
Bond interest and redemption account – cash	<u>208,875</u>	<u>81,501</u>
Total current assets	<u>861,328</u>	<u>1,194,839</u>
Noncurrent assets:		
Restricted investments:		
Bond reserve - cash	36,965	
Bond reserve - investment	104,660	200,000
Replacement account – investment	<u>100,000</u>	<u>100,000</u>
Total noncurrent restricted assets	<u>241,625</u>	<u>300,000</u>
Capital assets:		
Land	102,928	102,928
Water system	22,449,876	21,837,304
Less: Accumulated depreciation	(7,509,231)	(7,046,504)
Construction in progress	<u>523,530</u>	<u>723,910</u>
Net capital assets	<u>15,567,103</u>	<u>15,617,638</u>
Total noncurrent assets	<u>15,808,728</u>	<u>15,917,638</u>
Total assets	<u>\$ 16,670,056</u>	<u>\$ 17,112,477</u>

CITY OF ADRIAN, MICHIGAN
WATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

<u>LIABILITIES</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current liabilities:		
Vouchers payable	\$ 51,609	\$ 207,864
Accrued payroll	11,524	31,961
Due to other funds:		
General	8,932	37,116
Information Technology	2,431	18,199
DWRF Bonds payable – current	<u>235,000</u>	<u>225,000</u>
	309,496	520,140
Current liabilities - payable from restricted assets:		
Customer deposits payable	15,580	15,030
Accrued interest	<u>32,625</u>	<u>34,031</u>
Total current liabilities	<u>357,701</u>	<u>569,201</u>
Noncurrent liabilities:		
Accrued sick and vacation	86,605	80,837
DWRF Bonds payable	<u>4,985,000</u>	<u>5,220,000</u>
Total noncurrent liabilities	<u>5,071,605</u>	<u>5,300,837</u>
Total liabilities	<u>5,429,306</u>	<u>5,870,038</u>
NET ASSETS		
Invested in capital assets, net of related debt	10,347,104	10,172,638
Restricted for debt service	317,875	425,000
Restricted for replacement	100,000	100,000
Unrestricted	<u>475,771</u>	<u>544,801</u>
Total net assets	<u>\$ 11,240,750</u>	<u>\$ 11,242,439</u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating revenues:		
Charges for services	\$ 2,622,799	\$ 2,635,085
Miscellaneous revenues	<u>287,865</u>	<u>265,824</u>
Total operating revenues	<u>2,910,664</u>	<u>2,900,909</u>
Operating expenses:		
Cost of services:		
Merchandise	21,109	21,879
Taps and service	24,156	1,213
Purification and pumping	1,002,828	940,901
Transmission and distribution	464,609	575,037
Administration and overhead	817,549	924,520
Depreciation	<u>462,727</u>	<u>433,748</u>
Total operating expenses	<u>2,792,978</u>	<u>2,897,298</u>
Operating income	<u>117,686</u>	<u>3,611</u>
Nonoperating revenues (expenses):		
Interest revenue	12,531	18,257
Interest expense	<u>(131,906)</u>	<u>(137,453)</u>
Total nonoperating revenues (expenses)	<u>(119,375)</u>	<u>(119,196)</u>
Change in net assets	(1,689)	(115,585)
Total net assets – beginning of year	<u>11,242,439</u>	<u>11,358,024</u>
Total net assets – end of year	<u>\$ 11,240,750</u>	<u>\$ 11,242,439</u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2006 and 2005

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,238,818	\$ 2,682,604
Cash paid to suppliers	(1,587,815)	(1,408,052)
Cash paid to employees	<u>(978,175)</u>	<u>(1,019,538)</u>
Net cash provided by (used in) operating activities	<u>672,828</u>	<u>255,014</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(412,192)	(980,532)
Principal paid on DWRB Bonds	(225,000)	(220,000)
Interest and agent fees on DWRB Bonds	<u>(133,312)</u>	<u>(138,782)</u>
Net cash used in capital and related financing activities	<u>(770,504)</u>	<u>(1,339,314)</u>
Cash flows from investing activities:		
Purchase of investments		(98,682)
Interest	12,531	18,257
Proceeds on investments	<u>272,870</u>	<u>311,040</u>
Net cash provided by investing activities	<u>285,401</u>	<u>230,615</u>
Net increase (decrease) in cash and cash equivalents	187,725	(853,685)
Cash and cash equivalents at beginning of year	<u>195,513</u>	<u>1,049,198</u>
Cash and cash equivalents at end of year	<u>\$ 383,238</u>	<u>\$ 195,513</u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2006 and 2005

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Operating income	\$ 117,686	\$ 3,611
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	462,727	433,748
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	32,291	59,855
(Increase) decrease in due from other funds	295,313	(277,750)
(Increase) decrease in inventories	(22,380)	(4,655)
(Increase) decrease in prepaid expense	1,517	(587)
Increase (decrease) in vouchers payable	(156,255)	162,158
Increase (decrease) in accrued payroll	(20,437)	25,795
Increase (decrease) in accrued sick and vacation	5,768	15,164
Increase (decrease) in due to other funds	(43,952)	(164,050)
Increase (decrease) in customer deposits	<u>550</u>	<u>1,725</u>
Total adjustments	<u>555,142</u>	<u>251,403</u>
Net cash provided by (used in) operating activities	\$ <u>672,828</u>	\$ <u>255,014</u>

CITY OF ADRIAN, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS**

For Fiscal Year Ended June 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
PAYROLL DEDUCTION FUND				
<u>ASSETS</u>				
Cash	<u>\$ 24,380</u>	<u>\$ 228,512</u>	<u>\$ 238,217</u>	<u>\$ 14,675</u>
<u>LIABILITIES</u>				
Vouchers payable	<u>\$ 24,380</u>	<u>\$ 228,512</u>	<u>\$ 238,217</u>	<u>\$ 14,675</u>
PROPERTY TAX FUND				
<u>ASSETS</u>				
Cash	<u>\$ 142,554</u>	<u>\$ 21,177,644</u>	<u>\$ 21,300,204</u>	<u>\$ 19,994</u>
<u>LIABILITIES</u>				
Due to other taxing units	<u>\$ 142,554</u>	<u>\$ 21,177,644</u>	<u>\$ 21,300,204</u>	<u>\$ 19,994</u>
TRUST & AGENCY FUND				
<u>ASSETS</u>				
Cash	<u>\$ 294,078</u>	<u>\$ 329,051</u>	<u>\$ 327,211</u>	<u>\$ 295,918</u>
<u>LIABILITIES</u>				
Restricted deposits	<u>\$ 294,078</u>	<u>\$ 329,051</u>	<u>\$ 327,211</u>	<u>\$ 295,918</u>
TOTAL - ALL AGENCY FUNDS				
<u>ASSETS</u>				
Cash	<u>\$ 461,012</u>	<u>\$ 21,735,207</u>	<u>\$ 21,865,632</u>	<u>\$ 330,587</u>
<u>LIABILITIES</u>				
Vouchers payable	<u>\$ 24,380</u>	<u>\$ 228,512</u>	<u>\$ 238,217</u>	<u>\$ 14,675</u>
Due to other taxing units	<u>142,554</u>	<u>21,177,644</u>	<u>21,300,204</u>	<u>19,994</u>
Restricted deposits	<u>294,078</u>	<u>329,051</u>	<u>327,211</u>	<u>295,918</u>
Total liabilities	<u>\$ 461,012</u>	<u>\$ 21,735,207</u>	<u>\$ 21,865,632</u>	<u>\$ 330,587</u>

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

COMPARATIVE BALANCE SHEETS

June 30, 2006 and 2005

<u>ASSETS</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash and cash equivalents	\$ 444,463	\$ 724,270
Investments	14,437	13,949
Accounts receivable	<u>9,500</u>	<u>292</u>
Total assets	<u>\$ 468,400</u>	<u>\$ 738,511</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Vouchers payable	\$ 93,048	\$ 159,557
Due to primary government	258	11,604
Accrued payroll	<u>310</u>	<u>1,427</u>
Total liabilities	<u>93,616</u>	<u>172,588</u>
Fund balance:		
Reserved for:		
Downtown Development Projects		80,670
Encumbrances	35,193	26,789
Unreserved:		
Undesignated	<u>339,591</u>	<u>458,464</u>
Total fund balance	<u>374,784</u>	<u>565,923</u>
Total liabilities and fund balance	<u>\$ 468,400</u>	<u>\$ 738,511</u>

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Revenues:		
Property taxes	\$ 284,372	\$ 351,664
Interest	8,676	4,200
Other	4,695	
Contribution from Primary Government – Major Street		<u>15,000</u>
Total revenues	<u>297,743</u>	<u>370,864</u>
Expenditures:		
Current:		
Other services	200,194	118,249
Property acquisition	60,363	
Contributions to Primary Government	<u>42,870</u>	<u>46,834</u>
Total expenditures	<u>303,427</u>	<u>165,083</u>
Excess of revenues over expenditures	(5,684)	205,781
Other financing uses:		
Transfer out	<u>(121,800)</u>	<u>(132,760)</u>
Net change in fund balance	(127,484)	73,021
Fund balance – beginning of year	565,923	647,818
Prior year adjustment – TIF property taxes (See Note 3.I.)	<u>(63,655)</u>	<u>(154,916)</u>
Fund balance – end of year	<u>\$ 374,784</u>	<u>\$ 565,923</u>

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

COMPARATIVE BALANCE SHEETS

June 30, 2006 and 2005

<u>ASSETS</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash	\$ 16,224	\$ 16,599
Total assets	\$ 16,224	\$ 16,599
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accrued interest payable	\$ 14,215	\$ 13,255
Fund balance:		
Reserved for debt retirement	2,009	3,344
Total liabilities and fund balance	\$ 16,224	\$ 16,599

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Revenues:		
Interest	\$ <u>50</u>	\$ <u>160</u>
Total revenues	<u>50</u>	<u>160</u>
Expenditures:		
Debt Service:		
Principal retirement	85,000	90,000
Interest and fiscal charges	<u>38,185</u>	<u>42,985</u>
Total expenditures	<u>123,185</u>	<u>132,985</u>
Deficiency of revenues over expenditures	(123,135)	(132,825)
Other financing sources:		
Transfers from DDA - Special Revenue	<u>121,800</u>	<u>132,760</u>
Net change in fund balance	(1,335)	(65)
Fund balance - beginning of year	<u>3,344</u>	<u>3,409</u>
Fund balance - end of year	<u>\$ 2,009</u>	<u>\$ 3,344</u>

CITY OF ADRIAN, MICHIGAN

**LOCAL DEVELOPMENT FINANCE AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

COMPARATIVE BALANCE SHEETS

June 30, 2006 and 2005

<u>ASSETS</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash	\$ 47,439	\$ 47,116
Total assets	<u>\$ 47,439</u>	<u>\$ 47,116</u>
 <u>FUND BALANCE</u>		
Reserved for debt retirement	\$ 47,439	\$ 47,116
Total fund balance	<u>\$ 47,439</u>	<u>\$ 47,116</u>

CITY OF ADRIAN, MICHIGAN

LOCAL DEVELOPMENT FINANCE AUTHORITY - DEBT SERVICE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2006 and 2005

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Revenues:		
Property taxes	\$ 123,722	\$ 95,380
Interest	<u>322</u>	<u>200</u>
Total revenues	<u>124,044</u>	<u>95,580</u>
Expenditures:		
Debt Service:		
Principal retirement – City	7,500	7,500
Interest – City	1,800	2,400
Interest – Jacuzzi Brands	<u>114,421</u>	<u>85,480</u>
Total expenditures	<u>123,721</u>	<u>95,380</u>
Net change in fund balance	323	200
Fund balance - beginning of year	<u>47,116</u>	<u>46,916</u>
Fund balance - end of year	<u>\$ 47,439</u>	<u>\$ 47,116</u>

CITY
OF
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CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2006

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Storm Water Utility	01/01/97	\$ 800,000	4.70% 4.80
Parks & Recreation	08/01/00	\$ 1,000,000	5.75%
Parks & Recreation	05/23/03	\$ 1,200,000	3.64%

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2006

<u>Date of Maturity</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>	<u>Annual Interest Payable</u>
09/01/2005	\$ 100,000	\$	\$ 7,150
09/01/2006	<u>100,000</u>	<u>100,000</u>	<u>2,400</u>
	<u>\$ 200,000</u>	<u>\$ 100,000</u>	<u>\$ 9,550</u>
08/01/05 – 02/01/06	\$ 98,686	\$	\$ 34,196
08/01/06 – 02/01/07	104,442	Paid off	
08/01/07 – 02/01/08	110,534	in	
08/01/08 – 02/01/09	116,981	Fiscal Year 2005-06	
08/01/09 – 02/01/10	123,808		
08/01/10	<u>64,584</u>		
	<u>\$ 619,035</u>	<u>\$ -</u>	<u>\$ 34,196</u>
11/23/05 – 05/23/06	\$ 109,065	\$	\$ 35,173
11/23/06 – 05/23/07	113,072	113,072	31,167
11/23/07 – 05/23/08	117,225	117,225	27,014
11/23/08 – 05/23/09	121,531	121,531	22,708
11/23/09 – 05/23/10	125,995	125,995	18,244
11/23/10 – 05/23/11	130,623	130,623	13,618
11/23/11 – 05/23/12	135,420	135,420	8,818
11/23/12 – 05/23/13	<u>140,394</u>	<u>140,394</u>	<u>3,844</u>
	<u>\$ 993,325</u>	<u>\$ 884,260</u>	<u>\$ 160,586</u>

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CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2006

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Wastewater System Revenue Bonds (DWRP Loan)	09/26/02	\$ 8,920,000	2.50%

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2006

<u>Date of Maturity</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>	<u>Annual Interest Payable</u>
10/01/05 – 04/01/06	\$ 355,000	\$	\$ 209,812
10/01/06 – 04/01/07	365,000	365,000	200,812
10/01/07 – 04/01/08	375,000	375,000	191,562
10/01/08 – 04/01/09	385,000	385,000	182,062
10/01/09 – 04/01/10	395,000	395,000	172,312
10/01/10 – 04/01/11	405,000	405,000	162,312
10/01/11 – 04/01/12	415,000	415,000	152,063
10/01/12 – 04/01/13	425,000	425,000	141,563
10/01/13 – 04/01/14	435,000	435,000	130,813
10/01/14 – 04/01/15	445,000	445,000	119,812
10/01/15 – 04/01/16	460,000	460,000	108,500
10/01/16 – 04/01/17	470,000	470,000	96,875
10/01/17 – 04/01/18	480,000	480,000	85,000
10/01/18 – 04/01/19	495,000	495,000	72,813
10/01/19 – 04/01/20	505,000	505,000	60,313
10/01/20 – 04/01/21	520,000	520,000	47,500
10/01/21 – 04/01/22	535,000	535,000	34,313
10/01/22 – 04/01/23	545,000	545,000	20,813
10/01/2023	<u>560,000</u>	<u>560,000</u>	<u>7,000</u>
	<u>\$ 8,570,000</u>	<u>\$ 8,215,000</u>	<u>\$ 2,196,250</u>

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2006

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Water Supply System Revenue Bonds (DWRP Loan)	09/26/02	\$ 5,665,000	2.50%
Wastewater System Revenue Bonds (SRF Loan)	09/22/05	Not to exceed \$ 2,040,000	1.625%
Wastewater System Revenue Bonds, Series 2005B (SRF Loan)	12/15/05	Not to exceed \$7,090,000	1.625%
Accumulated vacation and sick pay - long term			
TOTAL - PRIMARY GOVERNMENT			

CITY OF ADRIAN, MICHIGAN
SCHEDULE OF INDEBTEDNESS

June 30, 2006

<u>Date of Maturity</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>	<u>Annual Interest Payable</u>
10/01/05 – 04/01/06	\$ 225,000	\$	\$ 133,312
10/01/06 – 04/01/07	235,000	235,000	127,563
10/01/07 – 04/01/08	240,000	240,000	121,625
10/01/08 – 04/01/09	245,000	245,000	115,562
10/01/09 – 04/01/10	250,000	250,000	109,375
10/01/10 – 04/01/11	255,000	255,000	103,063
10/01/11 – 04/01/12	265,000	265,000	96,562
10/01/12 – 04/01/13	270,000	270,000	89,875
10/01/13 – 04/01/14	275,000	275,000	83,063
10/01/14 – 04/01/15	285,000	285,000	76,062
10/01/15 – 04/01/16	290,000	290,000	68,875
10/01/16 – 04/01/17	300,000	300,000	61,500
10/01/17 – 04/01/18	305,000	305,000	53,938
10/01/18 – 04/01/19	315,000	315,000	46,187
10/01/19 – 04/01/20	320,000	320,000	38,250
10/01/20 – 04/01/21	330,000	330,000	30,125
10/01/21 – 04/01/22	340,000	340,000	21,750
10/01/22 – 04/01/23	345,000	345,000	13,188
10/01/2023	<u>355,000</u>	<u>355,000</u>	<u>4,437</u>
	<u>\$ 5,445,000</u>	<u>\$ 5,220,000</u>	<u>\$ 1,394,312</u>
Not available		<u>Loan Balance at 6/30/2006</u> <u>\$ 1,190,872</u>	<u>Not available</u>
Not available		<u>Loan Balance at 6/30/2006</u> <u>\$ 1,792,159</u>	<u>Not available</u>
	<u>\$ 375,482</u>	<u>\$ 454,433</u>	<u>\$ -</u>
	<u>\$ 16,202,842</u>	<u>\$ 17,856,724</u>	<u>\$ -</u>

June 30, 2006

148

June 30, 2006

(Payments dependent
on tax revenues
available.)

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity's Identifying Number</u>	<u>Program or Award Amount</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation				
USC Section 5311 Operating Assistance	20.509	MI-18-X037	Formula	\$ 13,538
USC Section 5311 Operating Assistance	20.509	MI-18-X039	Formula	44,191
USC Section 5309 Capital	20.500	98-0792/A6	52,000	31,445
USC Section 5309 Capital	20.500	MI-03-0186	53,854	53,854
USC Section 5309 Capital	20.500	MI-03-0176	1,519	1,519
USC Section 5309 Capital	20.500	MI-03-0215	2,646	1,927
USC Section 5311 Capital	20.509	MI-18-X038	16,000	1,261
Federal Aid Highway Program -CMAQ	20.205	82973A	130,000	50,043
U.S. Department of Justice				
Local Law Enforcement Block Grant Fiscal Year 2003	16.592	2003-LB-BX-0040	18,811	1,566
U.S. Environmental Protection				
Brownfield Assessment and Cleanup State Revolving Funds	66.818	BF-96562701	400,000	127,063
Wastewater System	66.458	5238-01	876,475	455,562
Wastewater System	66.458	5239-01	3,246,556	620,416
U.S. Department of Homeland Security				
Assistance to Firefighters	97.044	EMW-2005-FG-08379	77,805	69,435
U.S. Election Assistance Commission				
Help America Vote (HAVA)	90.401		54,623	<u>54,623</u>
Total Expenditures of Federal Awards				<u>\$ 1,526,443</u>

See independent auditors' report.

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- | | | | | |
|---|-------|-----|--------------|---------------|
| * Material weakness(es) identified? | _____ | YES | <u> X </u> | NO |
| * Reportable condition(s) identified that are not considered to be material weaknesses? | _____ | YES | <u> X </u> | NONE REPORTED |

Noncompliance material to financial statements noted?

_____ YES X NO

FEDERAL AWARDS

Internal control over major programs:

- | | | | | |
|---|-------|-----|--------------|---------------|
| * Material weakness(es) identified? | _____ | YES | <u> X </u> | NO |
| * Reportable condition(s) identified that are not considered to be material weaknesses? | _____ | YES | <u> X </u> | NONE REPORTED |

Type of auditors' report issued on compliance for major program:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ YES X NO

See independent auditors' report.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

IDENTIFICATION OF MAJOR PROGRAM:

<u>CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Name of Federal Program</u>
66.458	5238-01	State Revolving Funds
66.458	5239-01	State Revolving Funds

Dollar Threshold used to distinguish
between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ YES X NO

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

**CITY OF ADRIAN
FY2005-06 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

STATISTICAL SECTION

This part of the City of Adrian's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends <i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	155-161
Revenue Capacity <i>These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.</i>	162-165
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	166-170
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	171-172
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</i>	173-175

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in FY2002-03: schedules presenting government-wide information include information beginning in that year.

EXHIBIT B-1

**CITY OF ADRIAN
NET ASSETS BY COMPONENT
LAST FOUR FISCAL YEARS
(accrual basis of accounting)**

	FISCAL YEAR			
	2002-03	2003-04	2004-05	2005-06
Governmental Activities				
Invested in Capital Assets, Net of Related Debt	\$24,050,841	\$23,761,251	\$24,026,248	\$23,276,411
Restricted	4,711,401	4,747,830	3,876,032	3,869,047
Unrestricted	7,018,815	6,856,377	6,368,174	6,027,334
Total Governmental Activities Net Assets	\$35,781,057	\$35,365,458	\$34,270,454	\$33,172,792
Business-type Activities				
Invested in Capital Assets, Net of Related Debt	\$27,647,272	\$26,559,550	\$28,022,181	\$28,323,256
Restricted	1,295,005	1,505,243	1,380,000	1,417,981
Unrestricted	3,732,120	4,894,449	2,796,672	1,568,065
Total Business-type Activities Net Assets	\$32,674,397	\$32,959,242	\$32,198,853	\$31,309,302
Primary Government				
Invested in Capital Assets, Net of Related Debt	\$51,698,113	\$50,320,801	\$52,048,429	\$51,599,667
Restricted	6,006,406	6,253,073	5,256,032	5,287,028
Unrestricted	10,750,935	11,750,826	9,164,846	7,595,399
Total Primary Government Net Assets	\$68,455,454	\$68,324,700	\$66,469,307	\$64,482,094

CITY OF ADRIAN
CHANGES IN NET ASSETS
LAST FOUR FISCAL YEARS
 (accrual basis of accounting)

EXHIBIT B-2

	FISCAL YEAR			
	2002-03	2003-04	2004-05	2005-06
EXPENSES				
Governmental Activities:				
General Government	\$1,807,739	\$1,684,439	\$2,655,280	\$2,450,722
Public Safety	4,397,169	4,601,589	4,693,255	4,912,898
Public Works	920,125	1,076,086	784,985	1,122,058
Culture and Recreation	2,085,016	1,915,082	2,188,354	2,447,601
Other Services	1,300,251	1,985,445	1,631,127	1,668,073
Community & Economic Development	1,143,654	619,075	278,898	599,690
Highways, Streets and Bridges	2,118,957	2,212,509	2,513,058	2,418,910
Interest on Long-Term Debt	87,538	78,673	69,369	3,112
Total Governmental Activities Expenses	<u>\$13,860,449</u>	<u>\$14,172,898</u>	<u>\$14,814,326</u>	<u>\$15,623,064</u>
Business-type Activities:				
Wastewater System	\$2,604,671	\$2,804,095	\$3,465,380	\$3,731,181
Water System	2,697,494	2,425,881	3,034,751	2,924,884
Dial-A-Ride System	413,435	440,192	490,660	455,245
Automobile Parking System	103,545	112,969	152,681	116,399
Storm Water Utility	165,359	207,851	344,579	227,688
Total Business-type Activities Expenses	<u>\$5,984,504</u>	<u>\$5,990,988</u>	<u>\$7,488,051</u>	<u>\$7,455,397</u>
Total Primary Government Expenses	<u>\$19,844,953</u>	<u>\$20,163,886</u>	<u>\$22,302,377</u>	<u>\$23,078,461</u>
PROGRAM REVENUES (Incl. Grants & Contributions)				
Governmental Activities:				
General Government	\$177,973	\$395,718	\$1,113,947	\$978,001
Public Safety	633,870	352,914	449,253	595,219
Public Works	1,786	1,877	991	27,872
Culture and Recreation	849,317	1,154,198	1,297,964	1,150,675
Other Services	907,323	893,914	273,882	209,046
Community & Economic Development	1,252,159	592,145	145,189	469,604
Highways, Streets and Bridges	513,438	411,574	152,322	194,946
Total Governmental Activities Program Revenues	<u>\$4,335,866</u>	<u>\$3,802,340</u>	<u>\$3,433,548</u>	<u>\$3,625,363</u>

EXHIBIT B-2

**CITY OF ADRIAN
CHANGES IN NET ASSETS
LAST FOUR FISCAL YEARS
(accrual basis of accounting)**

Business-type Activities:				
Wastewater System	\$2,275,150	\$2,543,309	\$2,673,090	\$2,711,762
Water System	2,888,132	2,773,621	2,900,909	2,910,664
Dial-A-Ride System	366,570	318,273	299,965	426,561
Automobile Parking System	100,554	111,815	80,239	46,841
Storm Water Utility	252,937	263,965	363,813	281,679
Total Business-type Activities Program Revenues	<u>\$5,883,343</u>	<u>\$6,010,983</u>	<u>\$6,318,016</u>	<u>\$6,377,507</u>
Total Primary Government Program Revenues	<u>\$10,219,209</u>	<u>\$9,813,323</u>	<u>\$9,751,564</u>	<u>\$10,002,870</u>
NET (EXPENSES)/REVENUE				
Governmental Activities	(\$9,524,583)	(\$10,370,558)	(\$11,380,778)	(\$11,997,701)
Business-type Activities	<u>(101,161)</u>	<u>19,995</u>	<u>(1,170,035)</u>	<u>(1,077,890)</u>
Total Primary Government Net Expense	<u>(\$9,625,744)</u>	<u>(\$10,350,563)</u>	<u>(\$12,550,813)</u>	<u>(\$13,075,591)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS				
Governmental Activities:				
Property Taxes	\$5,914,288	\$6,041,046	\$6,528,844	\$6,869,387
Sales Tax	2,621,990	2,551,255	2,435,992	2,408,301
Motor Vehicle Fuel Tax	1,227,987	1,337,898	1,347,902	1,309,222
Grants and Contributions (not restricted to specific programs)	660,115	11,008	12,346	75,785
Unrestricted Investment Earnings	248,534	170,879	236,936	358,274
Transfers	<u>(100,433)</u>	<u>(157,127)</u>	<u>(276,246)</u>	<u>(120,930)</u>
Total Governmental Activities	<u>\$10,572,481</u>	<u>\$9,954,959</u>	<u>\$10,285,774</u>	<u>\$10,900,039</u>
Business-type Activities:				
Unrestricted Investment Earnings	\$118,529	\$95,723	\$133,400	\$67,409
Transfers	100,433	169,127	276,246	120,930
Total Business-type Activities	<u>\$218,962</u>	<u>\$264,850</u>	<u>\$409,646</u>	<u>\$188,339</u>
Total Primary Government	<u>\$10,791,443</u>	<u>\$10,219,809</u>	<u>\$10,695,420</u>	<u>\$11,088,378</u>
CHANGE IN NET ASSETS				
Governmental Activities	\$1,047,898	(\$415,599)	(\$1,095,004)	(\$1,097,662)
Business-type Activities	<u>117,801</u>	<u>284,845</u>	<u>(760,389)</u>	<u>(889,551)</u>
Total Primary Government	<u>\$1,165,699</u>	<u>(\$130,754)</u>	<u>(\$1,855,393)</u>	<u>(\$1,987,213)</u>

CITY OF ADRIAN
FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR									
	FY1995-96	FY1997-98	FY1998-99	FY1999-2000	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06
General Fund										
Reserved	\$155,555	\$133,104	\$107,722	\$146,824	\$150,254	\$151,423	\$1,880,375	\$927,493	\$804,255	\$485,350
Unreserved	3,231,874	4,450,879	5,273,590	5,746,147	6,647,473	7,051,521	5,588,179	6,309,600	5,758,113	5,558,816
Total General Fund	\$3,387,429	\$4,583,983	\$5,381,312	\$5,892,971	\$6,797,727	\$7,202,944	\$7,468,554	\$7,237,093	\$6,562,368	\$6,044,166
All Other Governmental Funds										
Reserved	\$675,284	\$553,323	\$465,722	\$410,381	\$438,442	\$434,369	\$1,856,968	\$2,008,395	\$1,319,835	\$1,643,008
Unreserved, Reported in:										
Special Revenue Funds	\$1,764,238	\$2,182,189	\$2,574,813	\$2,815,685	\$2,293,233	\$2,430,783	\$2,854,433	\$2,739,435	\$2,489,803	\$2,159,189
Endowment Fund	0	0	0	0	0	0	0	0	66,394	66,850
Debt Service Funds	0	0	0	0	0	0	0	0	0	0
Total All Other Governmental Funds	\$2,439,522	\$2,735,512	\$3,040,535	\$3,226,066	\$2,731,675	\$2,865,152	\$4,711,401	\$4,747,830	\$3,876,032	\$3,869,047
Total Governmental Funds	\$5,826,951	\$7,319,495	\$8,421,847	\$9,119,037	\$9,529,402	\$10,068,096	\$12,179,955	\$11,984,923	\$10,438,400	\$9,913,213

CITY OF ADRIAN
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR									
	FY1996-97	FY1997-98	FY1998-99	FY1999-2000	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06
REVENUES:										
Taxes	\$4,708,107	\$5,097,850	\$5,335,941	\$5,432,018	\$5,549,836	\$5,666,051	\$5,843,118	\$5,964,834	\$6,433,580	\$6,559,027
Other Tax Related Revenue	56,763	87,496	67,808	103,369	63,917	57,364	70,670	74,212	87,764	210,360
Licenses & Permits	169,659	262,312	152,262	155,934	173,988	178,051	280,389	184,207	262,278	486,327
Intergovernmental - Federal	62,222	58,074	138,077	230,836	731,182	519,158	800,346	89,145	13,141	281,485
Intergovernmental - State	3,386,075	3,770,900	3,932,824	4,094,996	4,316,144	4,213,929	4,160,844	3,988,935	3,958,348	3,953,373
Charges for Services	64,465	58,763	71,887	62,870	67,454	64,858	66,458	65,345	63,631	64,380
Use and Admission Charges	292,384	326,043	300,442	307,619	295,690	321,521	301,299	314,117	336,219	363,084
Fines and Fees	245,704	262,887	266,368	287,544	304,369	291,757	275,172	326,021	324,033	290,659
Investment Earnings	345,717	403,636	439,577	490,747	613,782	416,449	286,010	170,879	236,936	358,274
Fee Trust - for beautification purposes	465,857	1,169,173	638,527	377,319	884,164	642,379	1,415,214	1,282,212	763,001	656,057
Other	754,117	1,324,225	694,931	798,058	607,408	1,196,707	1,262,351	1,322,348	806,513	705,528
Special Assessments	0	0	0	0	0	207,843	246,409	130,170	24,944	84,398
Contribution from DDA	0	0	0	0	0	0	0	0	46,834	42,870
Total Revenues	\$10,551,070	\$12,821,359	\$12,038,644	\$12,341,310	\$13,607,934	\$13,776,067	\$15,008,280	\$13,912,425	\$13,357,222	\$14,155,822
EXPENDITURES:										
General Government	\$1,361,604	\$1,350,878	\$1,455,220	\$1,353,112	\$1,437,634	\$1,505,288	\$1,822,635	\$1,772,172	\$2,189,291	\$2,069,689
Public Safety	3,371,089	3,462,670	3,947,172	4,333,602	4,026,042	4,253,144	4,533,808	4,544,000	4,818,431	4,833,758
Public Works	921,521	1,049,060	888,753	880,541	899,738	1,110,080	904,533	912,372	1,098,841	965,312
Culture & Recreation	1,772,708	1,756,115	1,688,061	1,794,139	1,979,850	2,114,545	2,232,404	2,272,317	2,260,361	2,303,512
Other Services	1,019,940	1,797,897	1,220,051	1,256,400	2,714,927	2,066,253	2,782,935	1,412,504	1,062,495	1,149,559
Community & Economic Development	0	0	0	0	0	0	1,424,600	615,400	276,273	595,793
Capital Outlay	1,319,745	1,772,451	1,506,421	1,817,510	1,831,498	1,992,544	1,226,250	2,144,444	2,644,686	1,867,403
Debt Service										
Principal Retirement	100,000	150,000	184,423	150,000	187,691	78,665	83,253	189,583	198,448	728,100
Interest and Fiscal Charges	49,375	40,200	29,602	17,700	66,389	54,217	49,629	87,538	78,673	41,314
Total Expenditures	\$9,915,982	\$11,379,271	\$10,919,703	\$11,603,004	\$13,143,769	\$13,174,736	\$15,060,047	\$13,950,330	\$14,627,499	\$14,554,440
Excess of Revenues over/(under) Expenditures	\$635,088	\$1,442,088	\$1,118,941	\$738,306	\$464,165	\$601,331	(\$51,767)	(\$37,905)	(\$1,270,277)	(\$398,618)
Other Financing Sources (Uses):										
Transfers In	\$740,457	\$1,486,734	\$1,055,232	\$755,861	\$1,371,955	\$1,163,016	\$1,888,272	\$2,364,135	\$1,385,504	\$1,441,182
Transfers Out	(745,267)	(1,499,863)	(1,074,956)	(793,557)	(1,422,200)	(1,222,745)	(1,988,705)	(2,521,262)	(1,661,750)	(1,567,751)
Loan Proceeds	0	0	0	0	0	0	1,200,000	0	0	0
Total Other Financing Sources (Uses)	(\$4,810)	(\$13,129)	(\$19,724)	(\$37,696)	(\$50,245)	(\$59,729)	\$1,099,567	(\$157,127)	(\$276,246)	(\$126,569)
NET CHANGES IN FUND BALANCES	\$630,278	\$1,428,959	\$1,099,217	\$700,610	\$413,920	\$541,602	\$1,047,800	(\$195,032)	(\$1,546,523)	(\$525,187)
Debt Service as a Percentage of Non-Capital Expenditures	1.7%	2.0%	2.3%	1.7%	2.2%	1.2%	1.0%	2.3%	2.3%	6.1%

EXHIBIT B-5

CITY OF ADRIAN
PROGRAM REVENUES BY FUNCTION/PROGRAM
LAST FOUR FISCAL YEARS
(accrual basis of accounting)

Function/Program	FISCAL YEAR			
	2002-03	2003-04	2004-05	2005-06
Governmental Activities:				
General Government	\$177,973	\$395,718	\$1,113,947	\$978,001
Public Safety	633,870	352,914	449,253	595,219
Public Works	1,786	1,877	991	27,872
Culture and Recreation	849,317	1,154,198	1,297,964	1,150,675
Other Services	907,323	893,914	273,882	209,046
Community & Economic Development	1,252,159	592,145	145,189	469,604
Highways, Streets and Bridges	513,438	411,574	152,322	194,946
Total Governmental Activities	\$4,335,866	\$3,802,340	\$3,433,548	\$3,625,363
Business-type Activities:				
Wastewater System	\$2,275,150	\$2,543,309	\$2,673,090	\$2,711,762
Water System	2,888,132	2,773,621	2,900,909	2,910,664
Dial-A-Ride System	366,570	318,273	299,965	426,561
Automobile Parking System	100,554	111,815	80,239	46,841
Storm Water Utility	252,937	263,965	363,813	281,679
Total Business-type Activities	\$5,883,343	\$6,010,983	\$6,318,016	\$6,377,507
Total Primary Government	\$10,219,209	\$9,813,323	\$9,751,564	\$10,002,870

EXHIBIT B-6

CITY OF ADRIAN
TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

FISCAL YEAR	PROPERTY TAXES	SALES TAX	MOTOR VEH. FUEL TAX	OTHER	TOTAL
1996-97	4,708,107	2,401,859	984,216	56,763	\$8,150,945
1997-98	5,097,850	2,573,956	1,196,944	87,496	\$8,956,246
1998-99	5,335,941	2,697,145	1,235,679	67,808	\$9,336,573
1999-00	5,432,018	2,827,815	1,267,181	103,369	\$9,630,383
2000-01	5,549,836	3,010,144	1,306,000	63,917	\$9,929,897
2001-02	5,666,051	2,944,150	1,269,779	57,364	\$9,937,344
2002-03	5,843,118	2,621,990	1,488,524	70,670	\$10,024,302
2003-04	5,964,834	2,551,255	1,391,904	74,212	\$9,982,205
2004-05	6,433,580	2,435,992	1,469,145	87,764	\$10,426,481
2005-06	6,659,027	2,408,301	1,477,324	210,360	\$10,755,012

Change

2005-06 over/(under) 1996-97

Amount	\$1,950,920	\$6,442	\$493,108	\$153,597	\$2,604,067
Percent	41.4%	0.3%	50.1%	270.6%	31.9%

Change

2005-06 over/(under) 2004-05

Amount	\$225,447	(\$27,691)	\$8,179	\$122,596	\$328,531
Percent	3.5%	-1.1%	0.6%	139.7%	3.2%

EXHIBIT C-1

CITY OF ADRIAN
 ASSESSED VALUE AND TAXABLE VALUE OF REAL AND PERSONAL PROPERTY
 LAST TEN FISCAL YEARS

FISCAL YEAR	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	INDUSTRIAL PROPERTY	PERSONAL PROPERTY	TOTAL ASSESSED VALUE	LESS: TAX-EXEMPT PROPERTY	TOTAL TAXABLE VALUE	TOTAL DIRECT TAX RATE
1996-97	173,909,400	77,337,200	14,364,000	52,583,700	318,194,300	21,070,403	297,123,897	16.5264
1997-98	186,381,200	82,940,200	15,173,100	55,128,500	339,623,000	27,099,237	312,523,763	16.1124
1998-99	197,750,500	85,697,900	15,657,000	58,388,600	357,494,000	31,430,274	326,063,726	16.0524
1999-00	207,205,000	91,202,200	16,182,900	63,786,600	378,376,700	37,218,512	341,158,188	15.7750
2000-01	219,406,000	96,347,600	16,846,400	68,333,300	400,933,300	42,946,813	357,986,487	15.5828
2001-02	232,638,900	101,140,300	18,552,100	66,895,200	419,226,500	48,679,000	370,547,500	15.2443
2002-03	245,113,050	107,306,900	17,777,500	66,333,700	436,531,150	52,971,038	383,560,112	15.2426
2003-04	259,696,900	112,120,800	16,988,700	65,246,100	454,052,500	56,828,160	397,224,340	15.7340
2004-05	276,738,900	117,518,100	16,967,300	62,610,900	473,835,200	63,540,690	410,294,510	15.7340
2005-06	302,506,900	126,012,800	16,574,500	62,559,100	507,653,300	80,749,280	426,904,020	15.6912

Source: Lenawee County Equalization Report

EXHIBIT C-2

CITY OF ADRIAN
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS

FISCAL YEAR	CITY DIRECT RATES					OVERLAPPING HOMESTEAD TAX RATES				
	BASIC RATE	GENERAL OBLIGATION DEBT SERVICE	SOLID WASTE COLLECTION	LOCAL STREET IMPROVEMENTS	TOTAL DIRECT TAX RATE	INTERMEDIATE SCHOOL DISTRICT*	LENAWEE COUNTY	ADRIAN SCHOOL DISTRICT	MADISON SCHOOL DISTRICT	
1996-97	14.0124	0.5140	1.0000	1.0000	16.5264	6.6949	5.2745	7.4000	6.0000	
1997-98	14.0124	0.6000	0.5000	1.0000	16.1124	6.6949	5.7385	7.2000	6.0000	
1998-99	14.0124	0.5400	0.5000	1.0000	16.0524	6.6849	5.9178	7.2000	7.5500	
1999-00	13.9282	0.5250	0.3254	0.9964	15.7750	6.6073	5.6554	7.0000	7.7000	
2000-01	13.8655	0.4000	0.3258	0.9915	15.5828	7.7073	5.6420	7.0000	7.8000	
2001-02	13.8544	0.0000	0.3992	0.9907	15.2443	7.6446	5.6165	6.9500	7.8000	
2002-03	13.8198	0.0000	0.4338	0.9890	15.2426	7.5465	5.8191	6.0000	7.7500	
2003-04	13.7507	0.0000	1.0000	0.9833	15.7340	7.4867	5.7730	6.0000	7.8000	
2004-05	13.7507	0.0000	1.0000	0.9833	15.7340	7.4102	5.7145	6.0000	6.9300	
2005-06	13.7108	0.0000	1.0000	0.9804	15.6912	7.2900	5.6270	9.4600	7.3000	

Source: Lenawee County Apportionment Report

Note: Adrian and Madison School Districts include State Education Tax (SET) on Homesteads, as well as School Debt millage and School Building & Site millage.

* Includes Special Education and Vocational Education

CITY OF ADRIAN
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND NINE YEARS AGO

EXHIBIT C-3

FY2005-06				FY1996-97			
<u>TAXPAYER</u>	<u>TYPE OF BUSINESS</u>	<u>TAXABLE VALUE</u>	<u>RANK</u>	<u>PERCENT OF TOTAL TAXABLE VALUE</u>	<u>TAXABLE VALUE</u>	<u>RANK</u>	<u>PERCENT OF TOTAL TAXABLE VALUE</u>
SOLVAY (INERGY) AUTOMOTIVE	MANUFACTURING	\$21,222,800	1	4.97%	\$2,173,000	12	0.75%
DELPHI AUTOMOTIVE	MANUFACTURING	16,891,500	2	3.96%	15,323,150	1	5.29%
ANDERSON DEVELOPMENT	MANUFACTURING	15,289,710	3	3.58%	6,147,911	2	2.12%
MEIJER INC.	RETAIL	5,897,320	4	1.38%	4,163,500	4	1.44%
EQUITY ASSETS MANAGEMENT	RETAIL-MALL	5,856,470	5	1.37%	5,077,200	3	1.75%
WYATT REAL ESTATE (VENCHURS)	MANUFACTURING	5,740,200	6	1.34%	3,137,799	7	1.08%
ADRIAN STEEL	MANUFACTURING	4,409,660	7	1.03%	2,687,209	9	0.93%
BIOLAB, INC.	MANUFACTURING	4,248,500	8	1.00%	2,792,598	8	0.96%
CONSUMERS ENERGY	UTILITY	3,789,760	9	0.89%	3,281,661	6	1.13%
IXTLAN PLASTICS TECHNOLOGY	MANUFACTURING	2,894,100	10	0.68%	3,335,826	5	1.15%
CITIZENS GAS & FUEL COMPANY	UTILITY	2,861,250	11	0.67%			
IXTLAN PLASTICS TECHNOLOGY	MANUFACTURING	2,756,300	12	0.65%			
ADRIAN FABRICATORS	MANUFACTURING	2,746,700	13	0.64%			
PEDCOR INVESTMENTS	HOUSING	2,647,500	14	0.62%			
FISCHER FAMILY TRUST	HOUSING	2,538,350	15	0.59%			
FOCUS VENTURES PARTNERS	LODGING	2,196,360	16	0.51%	1,699,100	14	0.59%
KLM ADRIAN, LLC	RETAIL PROP MGT	2,102,430	17	0.49%	2,482,600	10	0.86%
HJM DEVELOPMENT, LLC	INSURANCE	1,916,700	18	0.45%			
DURA, CORP.	MANUFACTURING				1,850,889	13	0.64%
UARCO, INC.	MANUFACTURING				1,601,504	15	0.55%
GARDEN STATE TANNING	MANUFACTURING				2,280,111	11	0.79%
TOTAL		<u>\$106,005,610</u>		<u>24.83%</u>	<u>\$58,034,058</u>		<u>20.04%</u>
	TAXABLE VALUE	\$426,904,020			\$289,594,370		

SOURCE: City of Adrian Assessing Office

**CITY OF ADRIAN
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN YEARS**

EXHIBIT C-4

FISCAL YEAR	TAXES LEVIED FOR THE FISCAL YEAR	COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY		COLLECTIONS IN SUBSEQUENT YEARS	TOTAL COLLECTIONS TO DATE	
		AMOUNT	PERCENT OF LEVY		AMOUNT	PERCENT OF LEVY
1996-97	4,330,579	4,201,435	97.02%	1,782	4,203,217	97.06%
1997-98	4,787,379	4,505,009	94.10%	20,780	4,525,789	94.54%
1998-99	5,016,756	4,738,367	94.45%	4,893	4,743,260	94.55%
1999-00	4,962,176	4,822,163	97.18%	19,279	4,841,442	97.57%
2000-01	5,094,237	5,001,594	98.18%	599	5,002,193	98.19%
2001-02	5,210,649	5,129,617	98.44%	5,835	5,135,452	98.56%
2002-03	5,278,776	5,196,857	98.45%	4,113	5,200,970	98.53%
2003-04	6,078,050	5,948,936	97.88%	15,898	5,964,834	98.14%
2004-05	6,260,655	6,028,639	96.29%	42,487	6,071,126	96.97%
2005-06	6,558,928	6,237,099	95.09%	58,634	6,295,733	95.99%

Source: City of Adrian Department of Treasury

EXHIBIT D-1

CITY OF ADRIAN
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

FISCAL YEAR	AUTO PARKING			FIRE STATION		STORM WATER		PARKS & RECREATION		TOTAL GENERAL		PARKS & RECREATION		WATER SYSTEM		WATER SYSTEM		SEWER SYSTEM		SEWER REVOLVING		DRINKING WATER		PERCENT OF		TOTAL PRIMARY		PER CAPITA	
	BONDS	BONDS	BONDS	BONDS	BONDS	BONDS	BONDS	INSTALLMENT PURCHASE	CONTRACT	OBLIGATION	BONDS	LAND	BONDS #1	BONDS #2	REVENUE	REVENUE	REVENUE	FUND	FUND	GOVT.	PERSONAL	INCOME	GOVT.	PERSONAL	INCOME	GOVT.	PERSONAL	INCOME	
1996-97	330,000	600,000	800,000	0	1,730,000	0	675,000	825,000	400,000	0	3,630,000	0	0	0	0	0	0	0	0	0	0	0	0	0.9%	164				
1997-98	300,000	450,000	760,000	0	1,510,000	102,774	525,000	800,000	200,000	0	3,137,774	0	0	0	0	0	0	0	0	0	0	0	0	0.7%	142				
1998-99	285,000	300,000	695,000	0	1,260,000	68,351	350,000	775,000	0	0	2,453,351	0	0	0	0	0	0	0	0	0	0	0	0	0.5%	111				
1999-00	230,000	150,000	625,000	0	1,005,000	1,035,604	175,000	750,000	0	0	2,965,604	0	0	0	0	0	0	0	0	0	0	0	0	0.6%	134				
2000-01	190,000	0	550,000	962,309	1,702,309	0	0	700,000	0	0	2,402,309	0	0	0	0	0	0	0	0	0	0	0	0	0.5%	109				
2001-02	150,000	0	470,000	883,644	1,503,644	0	0	475,000	0	0	1,978,644	0	0	0	0	0	0	0	0	0	0	0	0	0.4%	89				
2002-03	100,000	0	385,000	2,000,391	2,485,391	0	0	250,000	0	0	10,532,948	0	0	0	0	0	0	2,946,566	4,850,991	10,532,948	2.2%	474							
2003-04	50,000	0	295,000	1,810,808	2,155,808	0	0	0	0	0	16,740,808	0	0	0	0	0	0	8,920,000	5,665,000	16,740,808	3.5%	754							
2004-05	0	0	200,000	1,612,360	1,812,360	0	0	0	0	0	15,827,360	0	0	0	0	0	0	8,570,000	5,445,000	15,827,360	3.3%	712							
2005-06	0	0	100,000	884,260	984,260	0	0	0	0	0	17,402,291	0	0	0	0	0	0	11,198,031	5,220,000	17,402,291	3.6%	783							

EXHIBIT D-2

CITY OF ADRIAN
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

FISCAL YEAR	PARKS &				TOTAL GENERAL BONDS	PERCENT OF TAXABLE PROPERTY*	PER CAPITA**
	AUTO PARKING BONDS	FIRE STATION BONDS	STORM WATER UTILITY BONDS	RECREATION INSTALLMENT PURCHASE AGREEMENT			
1996-97	330,000	600,000	800,000	0	1,730,000	0.58%	\$78.29
1997-98	300,000	450,000	760,000	0	1,510,000	0.48%	\$68.34
1998-99	265,000	300,000	695,000	0	1,260,000	0.39%	\$57.02
1999-00	230,000	150,000	625,000	0	1,005,000	0.29%	\$45.48
2000-01	190,000	0	550,000	962,309	1,702,309	0.48%	\$77.04
2001-02	150,000	0	470,000	883,644	1,503,644	0.41%	\$67.69
2002-03	100,000	0	385,000	2,000,391	2,485,391	0.65%	\$111.88
2003-04	50,000	0	295,000	1,810,808	2,155,808	0.54%	\$97.04
2004-05	0	0	200,000	1,612,360	1,812,360	0.44%	\$81.58
2005-06	0	0	100,000	884,260	984,260	0.23%	\$44.31

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* See Exhibit C-1 for property value data.

** Population data can be found in Exhibit E-1.

CITY OF ADRIAN
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2006

<u>Governmental Unit</u>	<u>DEBT</u>	<u>ESTIMATED</u>	<u>ESTIMATED</u>
<u>Debt Repaid with Property Taxes</u>	<u>OUTSTANDING</u>	<u>PERCENTAGE</u>	<u>SHARE OF</u>
		<u>APPLICABLE*</u>	<u>OVERLAPPING</u>
			<u>DEBT</u>
DIRECT DEBT:			
Installment Loan Purchase	\$884,260	100.00%	\$884,260
Storm Water Utility Bonds	100,000	100.00%	100,000
Net Direct Debt	<u>984,260</u>		<u>\$984,260</u>
OVERLAPPING DEBT:			
Adrian Public Schools	\$49,180,000	86.70%	\$42,639,060
Madison School District	1,830,048	13.30%	243,396
Lenawee County	<u>9,320,000</u>	<u>14.00%</u>	<u>1,304,800</u>
Net Overlapping Debt	<u>\$60,330,048</u>		<u>\$44,187,256</u>
Total Direct and Overlapping Debt	<u><u>\$61,314,308</u></u>		<u><u>\$45,171,516</u></u>

Sources: Taxable Value data used to estimate applicable percentages provided by the Lenawee County Equalization Department.
 Debt outstanding provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographical boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Adrian. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and, therefore, responsible for repaying the debt of each overlapping government.

* For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable value that is within the City's boundaries and dividing it by each unit's total taxable value.

**CITY OF ADRIAN
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

Exhibit D-4

Legal Debt Margin Calculation for Fiscal Year FY2004-05

Taxable Value	\$426,904,020
Debt Limit (10% of Taxable Value)	42,690,402
Debt Applicable to Limit:	
Installment Purchase Agreement	884,260
Storm Water Utility Bonds	<u>100,000</u>
Total Debt Applicable to Limit	984,260
Legal Debt Margin	<u><u>41,706,142</u></u>

	Fiscal Year									
	<u>FY1996-97</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-00</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>
Debt Limit	\$26,838,020	\$29,712,390	\$31,252,376	\$32,606,373	\$34,115,819	\$35,798,649	\$37,054,750	\$38,356,011	\$41,029,451	\$42,690,402
Total Debt Applicable to Limit	1,730,000	1,510,000	1,260,000	1,005,000	1,702,309	1,503,644	2,485,391	2,155,808	1,812,360	984,260
Legal Debt Margin	<u>\$25,108,020</u>	<u>\$28,202,390</u>	<u>\$29,992,376</u>	<u>\$31,601,373</u>	<u>\$32,413,510</u>	<u>\$34,295,005</u>	<u>\$34,569,359</u>	<u>\$36,200,203</u>	<u>\$39,217,091</u>	<u>\$41,706,142</u>

Total Debt Applicable to Limit as a Percentage of Debt Limit	6.45%	5.08%	4.03%	3.08%	4.99%	4.20%	6.71%	5.62%	4.42%	2.31%
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Note: The statutory debt limit of net bonded indebtedness incurred for all public purposes shall not, at any one time, exceed 10% of the State Equalized Valuation of taxable property in the City, except that this limit may be exceeded by 3/8th of one (1%) percent in the case of fire, flood, or other calamity. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds. This limitation does not include bonds issued in anticipation of the payment of special assessments, nor bonds issued pursuant to court order for sewage or garbage disposal system.

The Michigan State Bond Act provides that the total debt in special assessment bonds for which the credit of the City is pledged shall not exceed 12% of the assessed valuation of taxable property of the City, nor shall such bonds be issued in any calendar year in excess of 3% of the assessed valuation of taxable property of the City unless voted.

Source: City Records

CITY OF ADRIAN
PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS

FISCAL YEAR	WATER SYSTEM REVENUE BONDS					SEWER SYSTEM REVENUE BONDS				
	UTILITY SERVICE CHARGES	LESS:		NET AVAILABLE REVENUE	COVERAGE	UTILITY SERVICE CHARGES	LESS:		NET AVAILABLE REVENUE	COVERAGE
		OPERATING EXPENSES	DEBT SERVICE PRINCIPAL INTEREST				OPERATING EXPENSES	DEBT SERVICE PRINCIPAL INTEREST		
1996-97	2,324,212	1,637,173	175,000	\$687,039	2.71	2,519,276	1,471,855	200,000	\$1,047,421	4.75
1997-98	2,441,216	1,715,810	200,000	\$725,406	2.71	2,487,902	1,522,438	200,000	\$965,464	4.60
1998-99	2,432,835	1,470,451	200,000	\$962,384	3.75	2,493,407	1,519,952	0	\$973,455	0
1999-00	2,475,380	1,659,934	225,000	\$815,446	3.01	2,599,332	1,721,121	0	\$878,211	0
2000-01	2,410,259	1,648,469	962,309	\$761,790	0.76	2,627,112	1,976,128	0	\$650,984	0
2001-02	2,579,797	1,784,152	225,000	\$795,645	3.24	2,473,320	1,800,137	0	\$673,183	0
2002-03	2,737,791	2,363,646	250,000	\$374,145	1.46	2,275,150	2,011,722	0	\$263,428	0
2003-04	2,773,621	2,093,464	0	\$680,157	0	2,543,309	2,142,717	0	\$400,592	0
2004-05	2,900,909	2,463,550	220,000	\$437,359	1.22	2,673,090	2,271,711	350,000	\$401,379	0.71
2005-06	2,910,661	2,330,251	225,000	\$580,410	1.63	2,711,762	2,545,247	355,000	\$166,515	0.30

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
Operating expenses do not include interest, depreciation, or amortization expenses.

CITY OF ADRIAN
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
EXHIBIT E-1

FISCAL YEAR	POPULATION	PER CAPITA			SCHOOL ENROLLMENT	UNEMPLOYMENT RATES
		PERSONAL INCOME	PERSONAL INCOME	MEDIAN AGE		
1996-97	22,097	\$409,457,410	\$18,530	32.6	4,572	3.7%
1997-98	22,097	\$473,649,195	\$21,435	32.6	4,375	2.0%
1998-99	22,097	\$473,649,195	\$21,435	32.6	4,279	2.5%
1999-00	22,097	\$473,649,195	\$21,435	32.6	4,291	2.6%
2000-01	22,097	\$473,649,195	\$21,435	32.6	4,075	7.8%
2001-02	22,215	\$479,577,420	\$21,588	31.6	3,980	6.7%
2002-03	22,215	\$515,388,000	\$23,200	31.6	3,972	8.4%
2003-04	22,215	\$550,932,000	\$24,800	31.6	3,820	7.8%
2004-05	22,215	\$550,665,420	\$24,788	31.6	3,786	6.4%
2005-06	22,215	\$492,573,195	\$22,173	31.6	3,663	6.2%

Sources: Population, Personal Income and Median Age from U.S. Census Bureau; School Enrollments from Adrian Board of Education; Unemployment Rates from Michigan Employment Security Commission.

**CITY OF ADRIAN
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

EXHIBIT E-2

	FY 2005-06			FY1995-96*		
	<u>EMPLOYEES</u>	<u>RANK</u>	<u>PERCENTAGE OF TOTAL CITY EMPLOYMENT</u>	<u>EMPLOYEES</u>	<u>RANK</u>	<u>PERCENTAGE OF TOTAL CITY EMPLOYMENT</u>
<u>EMPLOYER</u>						
Lenawee Health Alliance	1,210	1	3.5%			
Merillat Industries	944	2	2.7%			
Adrian College	688	3	2.0%			
Lenawee County	520	4	1.5%			
Adrian Public Schools	508	5	1.5%			
Michigan Dept. of Corrections	500	6	1.4%			
Wacker Chemical Corp.	463	7	1.3%			
Delphi Automotive	460	8	1.3%			
Midwest Energy	395	9	1.1%			
Adrian Steel Company	375	10	1.1%			
Lenawee Intermediate School District	371	11	1.1%			
Wal-Mart	360	12	1.0%			
Madison School District	329	13	0.9%			
Meijer, Inc.	300	14	0.9%			
Lowe's of Adrian	300	15	0.9%			
Siena Heights University	280	16	0.8%			
Inergy Automotive	239	17	0.7%			
Lenawee Medical Care Facility	200	18	0.6%			
Hydro Aluminum	175	19	0.5%			
City of Adrian	169	20	0.5%			
Cargotainer/Adrian Fabricators	163	21	0.5%			
Brazeway, Inc.	64	22	0.2%			
	<u>9,013</u>		<u>25.8%</u>			
Total City Employment	35,000		100.0%			

Source: Lenawee County Chamber of Commerce

*Note: 1995-96 data not available; history will be built.

CITY OF ADRIAN
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

EXHIBIT F-1

<u>FUNCTION/PROGRAM</u>	<u>FY1996-97</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>
City Administrator	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	2.0	2.0
Finance Department	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.0	6.0
City Assessor	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.0	2.0
City Clerk	2.0	2.0	2.0	2.0	2.0	2.0	1.5	1.5	1.0	1.0
City Attorney	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Human Resources	0.7	0.7	0.7	0.7	0.7	1.2	1.2	1.2	1.0	1.0
Cemetery	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.0	3.0
Community Development	3.0	3.0	3.0	4.0	5.0	4.5	10.0	10.0	10.0	10.0
Public Works	15.5	15.5	15.5	15.5	14.5	14.5	10.5	10.5	13.0	13.0
Parks and Recreation	7.5	7.5	7.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Parks and Forestry	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Public Library	9.0	9.0	8.0	8.0	8.0	8.0	8.0	8.0	6.0	6.0
Police Department	34.5	33.5	36.5	39.0	36.0	36.0	36.0	36.0	36.0	37.0
Fire Department	20.0	20.0	20.0	20.0	19.0	19.0	20.0	20.0	21.0	19.0
Utilities Department	39.0	38.0	37.0	38.0	40.0	41.0	40.0	42.0	43.0	41.0
Auto Parking Fund	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Information Technology	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0
Total	158.5	156.5	157.5	162.5	160.5	161.5	162.5	164.5	165.0	165.0

Source: City Finance Department

CITY OF ADRIAN
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

EXHIBIT F-2

<u>FUNCTION/PROGRAM</u>	<u>FY1996-97</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>
Police Department										
Physical Arrests	780	780	783	609	789	986	1,010	1,034	1,604	1,779
Parking Violations	9,994	11,020	8,449	9,161	8,450	8,121	8,098	8,190	5,945	2,989
Traffic Violations	5,050	2,994	2,771	2,288	3,200	3,600	3,500	3,964	3,758	3,178
Fire Department										
Non-Medical Emergencies									481.0	486
EMS Rescue Responses									1688.0	1,725
Emergency Responses	2,047	1,975	2,151	2,220	2,163	2,243	1,970	2,156	2,149	2,211
Fires Extinguished	85	96	101	133	117	85	83	68	63	78
Refuse Collection										
Refuse Collected (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	8,238	6,789	7,172	7,400
Recyclables (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	857	900	910	857
Public Works										
Street Resurfacing (miles)	5.4	6.6	3.9	4.0	4.5	3.5	2.9	4.1	3.6	4.9
Cold/Hot Patch Repair (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	236.1	214.7	212.8	164.0
Parks and Recreation										
Athletic Field Permits Issued	182	202	179	167	161	179	173	173	164	91
Program Participants	36,439	34,245	30,868	38,554	37,981	37,249	34,874	35,118	21,710	21,654
Public Library										
Volumes in Collection	78,733	77,951	81,335	77,335	79,500	82,301	85,950	89,761	93,741	96,540
Total Volumes Borrowed	68,685	73,571	67,684	73,191	70,619	75,106	77,181	79,313	81,504	75,013
Water										
New Connections	54	17	58	28	1	41	34	28	13	13
Water Main Breaks				12	28	33	30	15	16	25
Average Daily Consumption (thousands of gallons)	3,609	3,436	3,773	3,785	3,397	3,517	3,613	3,580	3,270	3,156
Peak Daily Consumption (thousands of gallons)	5,851	5,268	5,406	6,070	5,030	5,520	5,620	5,581	5,026	6,690
Waste Water										
Average Daily Sewage Treatment (thousands of gallons)	6,119	5,748	6,954	6,007	5,618	5,742	5,282	5,230	4,932	5,001
Transit										
Total Route Miles	131,464	143,330	150,683	153,349	149,986	161,731	159,491	156,934	162,777	146,413
Passengers	80,629	83,900	88,601	95,900	92,337	95,724	91,657	91,138	91,138	80,244

Note: 33% Fare incr. - July '05

Sources: Various Departments

EXHIBIT F-3

CITY OF ADRIAN
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

<u>FUNCTION/PROGRAM</u>	<u>FY1996-97</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>
Police Department										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Vehicles	14	14	14	16	16	16	16	16	16	16
Motorcycles	0	0	0	2	2	4	5	2	2	2
Fire Department										
Stations	1	1	1	1	1	1	1	1	1	1
Emergency Vehicles	7	7	7	7	7	7	7	7	7	7
Hydrants	525	527	538	559	559	559	482	482	482	482
Public Works										
Streets (miles)	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5
Highways (miles)	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2
Bridges	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Streetlights	874	874	874	874	875	875	874	874	874	874
Traffic Signals	26	26	26	26	26	26	26	26	26	26
Parking Spaces	814	814	814	814	814	814	814	814	814	814
Parks and Recreation										
Acreage	666	672	672	672	672	672	672	672	674	674
Playgrounds	5	5	6	6	6	6	6	6	6	6
Baseball Diamonds	10	10	10	10	10	10	10	10	10	10
Soccer Fields	0	0	0	0	0	5	5	5	5	5
Community Centers	1	1	1	1	1	1	1	1	1	1
Water										
Water Mains (miles)	87.75	90.20	90.20	91.20	91.20	91.20	91.20	93.00	93.00	93.00
Customers	6,414	6,651	6,651	6,693	6,609	6,473	6,631	6,652	6,652	6,652
Storage Capacity	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
(thousands of gallons)										
Average Pumpage	2,958,517	3,200,000	3,300,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
(gallons/day)										
Waste Water										
Sanitary Sewers (miles)	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42
Storm Sewers (miles)	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42
Treatment Capacity	12,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
(gallons/day)										
Transit										
Minibuses	5	6	6	6	6	6	7	7	7	7

Sources: Various Departments

August 7, 2006

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We have audited the financial statements of the City of Adrian, Michigan and the combining, individual fund and account group financial statements of the City of Adrian, Michigan as of and for the year ended June 30, 2006, and have issued our report thereon dated August 7, 2006.

In planning and performing our audit of the financial statements of the City of Adrian, Michigan for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the City of Adrian, Michigan is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we are reporting to you in the remainder of this report. This report is intended solely for the use of management and should not be used for any other purpose.

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August 7, 2006

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

CENTRALIZED LOCATION OF GRANT DOCUMENTS

The City applies for and receives numerous grants every year. The City department requesting a grant is responsible for the proper administration and accounting for the grant.

As an auditor or any other individual wanting to review the grants of the City, much time is spent tracking down grant documents from the various departments.

The suggestion would be to have a centralized location where a copy of each City grant is kept on file. The file would include the grant application, grant acceptance and accounting documents. Having such files could be a useful reference when applying for a similar grant in the future.

PROPERTY ASSET RECORDS

The property assets records (depreciation schedules) of the Utilities Department might be updated periodically throughout the year. This would lessen the amount of work needed in this area at year-end.

INVESTMENT RECORDS

The City has contracted with SJS Investment Consulting, Inc. to summarize and analyze the City's investment activity throughout the year. Such analysis should provide timely insight into investment performance, and allow for a better basis on which to make investment decisions.

PENSION PLAN

The latest update on the City's defined benefit pension plan with MERS (Municipal Employees Retirement System of Michigan) is from the actuarial report of December 31, 2005. The unfunded actuarial accrued liability was \$4,835,802 at December 31, 2005. The unfunded liability at December 31, 2004 was \$4,443,829.

The projected City contributions to this plan for 2006-07 is \$705,552. The actual City contribution for 2005-06 was \$624,802.

FINANCIAL CONDITION

The City of Adrian continues to be in good financial condition. Total fund balance in the General Fund was \$6,044,166 at June 30, 2006, of which \$2,152,082 was unrestricted and undesignated. The General Fund did use \$518,202 of its equity to support current year expenditures.

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August 7, 2006

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

FINANCIAL CONDITION (Continued)

All funds of the City had positive fund balances at June 30, 2006. However, several funds have low unrestricted equity balances relative to the fund's total expenditures incurred. Wastewater System Fund's unrestricted equity was \$399,915 or 11% of total operating expenses. Water System Fund's unrestricted equity was \$475,771 or 17% of its total operating expenses. Storm Water Utility has unrestricted equity of \$129 or .06% of operating expenses. The Dial-A-Ride System has no unrestricted equity.

Again, we appreciate the assistance provided by the City during our audit.

Robertson, Eaton & Owen, P.C.